

**INTERNATIONAL JOINT VENTURE INSTABILITY  
AND CORPORATE STRATEGY**

**by**

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# **INTERNATIONAL JOINT VENTURE INSTABILITY AND CORPORATE STRATEGY**

International joint venture (IJV) longevity and stability are frequently used as indicators of collaborative success. This paper synthesizes the theoretical and methodological rationales for this approach and the implications for theory development. A corporate strategy perspective on IJVs is provided, which proposes that the effects of IJV dynamics are meaningfully considered at the parent firm level, and the impact of IJV longevity versus instability depends upon the firm's collaborative objectives, *ex post* exchange conditions, and the IJV's specific governance trajectory. The analysis aids in interpreting prior research and points to the value of more integrative, contingency perspectives on IJVs and their evolution.

## INTRODUCTION

The practice of adopting international joint venture (IJV) longevity and stability as performance indicators is very well established. Since the literature's inception, this approach has been followed in conceptual work, descriptive studies, and fieldwork, and continues to be employed by scholars studying cross-border collaboration (e.g., Beamish, 1985; Brown, Rugman, & Verbeke, 1989; Dymsza, 1988; Franko, 1971; Killing, 1983; Li & Guisinger, 1991). In part, this tradition reflects the literature's focus on IJV formation issues, theoretical diversity, and continued fragmentation. These factors have impeded the development of an overarching typology to classify heterogeneous alliances, investigate their evolution and effectiveness, and link specialized streams of research (Doz, 1996; Oliver, 1990; Osborn & Hagedoorn, 1997; Parkhe, 1993a; Smith, Carroll, & Ashford, 1995).

The more recent popularity of this approach is manifest in the large number of studies building longitudinal models to uncover factors that exacerbate or ameliorate IJV instability (e.g., Barkema, Bell, & Pennings, 1996; Barkema, Shenkar, Vermeulen, & Bell, 1997; Blodgett, 1992; Li, 1995; Millington & Bayliss, 1997; Park & Russo, 1996; Park & Ungson, 1997; Pennings, Barkema, & Douma, 1994). An ecological or selection approach to fit underlies this work (Drazin & Van de Ven, 1985), the implicit assumption being that only the fittest IJVs survive and those ill-suited to environmental conditions are weeded out by market mechanisms. The supposition that IJV longevity or stability is in parent firms' best interests, while IJV instability reflects failure by parent firms or the venture itself, is also evident in the popular courtship-marriage metaphor for JVs (e.g., Bartlett & Ghoshal, 1995: 377-379; Berg & Friedman, 1980; Harrigan, 1986; Kanter, 1994; Pfeffer & Nowak, 1976).

This paper contends that these assumptions and practices have important implications, both for how IJV research should be interpreted and for how the literature on collaborative strategy might be advanced. By way of introduction to these issues, the next section begins on the basis that this approach has substantial precedent in IJV research spanning several

decades. This work has yielded important insights into IJVs as hybrid organizational and competitive entities. Thus, this section draws together the theoretical and methodological rationales for using IJV longevity and stability as indicators of collaborative success.

Two subsequent sections bring out the shortcomings of this approach and advocate the development of contingency perspectives on interfirm collaboration. Based on the observation that IJV longevity or stability relates more directly to an IJV's performance rather than to the venture's impact on a parent firm, the next section takes up level of analysis issues that must be considered when assessing the effectiveness of collaboration. The paper submits that placing focus on the venture as the unit of analysis can be limiting for several reasons: the IJV is often a means to an end rather than an end *per se*, it is common for parent firms to have different IJV objectives as well as payoffs, venture survival or adaptability is not a necessary or sufficient condition for parent firms' desired collaborative outcomes like corporate flexibility, and it is difficult to draw inferences from an individual IJV's behavior or performance when the venture is embedded in a network or portfolio of alliances. However, even if it is assumed that IJV longevity is positively related to parent firm performance in general, the following questions remain unexplored: Under what conditions is IJV instability more or less detrimental to parent firms? Can venture longevity or stability be unrelated or even inversely related to parent firm performance in some circumstances?

The paper suggests that a focus on IJV longevity or stability can limit advancement of IJV theory, generate partial or even incorrect normative guidelines for firms, and discount the functions transitional IJVs can serve in a parent firm's evolving corporate strategy. A subsequent section proposes that collaborative effectiveness is meaningfully viewed from a corporate strategy perspective that considers all collaborative phases from venture formation to termination. For instance, the effects of IJV longevity versus instability on a parent firm are contingent upon the parent firm's initial and evolving objectives, in particular the degree to which the firm uses the venture to exploit an existing advantage versus acquire knowledge.

The attractiveness of IJV continuance and stability also depend upon *ex post* exchange conditions. Stylized examples derived from transaction cost theory illustrate the potential efficiency implications of IJV evolution. Finally, the effects of IJV longevity versus instability hinge upon the venture's specific governance trajectory as it evolves and ultimately ends by one of several means. While the literature treats IJV instability as a residual or miscellaneous category, distinct instability types can be subject to different influences and can lead to different parent firm performance outcomes. A concluding section brings out the paper's implications for empirical research on IJVs and theory development on collaborative strategy.

### **IV LONGEVITY AND STABILITY: PROXIES FOR COLLABORATIVE SUCCESS**

The rationales for using IJV longevity and stability as performance proxies might be catalogued in a variety of ways. Nevertheless, it is not surprising that these justifications, however categorized, are closely connected with IJVs' governance features, namely that parent firms have residual claimancy and shared control over a separate business entity (e.g., Chi, 1994; Hennart, 1988, 1993). Just as transaction cost theory emphasizes that the incentives for on-going cooperation are strongest when the venture is subject to performance ambiguity and both firms make transaction-specific investments (Kogut, 1988b), the rationales offered for evaluating IJV effectiveness in terms of longevity or stability also turn on IJV uncertainties and performance measurement difficulties and the impact of IJV longevity or instability on parent firms' resources and transaction costs.

#### **IJV Uncertainties and Performance Ambiguity**

When external or internal start-up uncertainties are significant, it can be problematic to appraise IJV effectiveness with standard accounting measures or other indicators used to evaluate the performance of established businesses. For instance, Harrigan (1988) suggests

that in uncertain industry environments, IJV longevity provides a better indication that the venture has achieved a source of differentiation. Venture longevity can also reflect parent firms' success in overcoming internal uncertainties since parent firms may limit the IJV's initial scope to reduce relational risks until a base of trust develops to provide a foundation for more substantive decisions requiring discretion (Buckley & Casson, 1988).

Venture effectiveness can also be difficult to assess due to the complexity of the venture's output and its transformation process (Anderson, 1990; Ouchi, 1979). Parent firms often enter IJVs for intangible purposes (e.g., Hamel, 1991; Harrigan, 1985), and IJV-parent spillovers can be difficult to quantify and track. Anderson (1990: 23) therefore recommends providing alliances substantial autonomy, especially during early years when alliance outputs and processes tend to be the most ambiguous: “[E]ncouraging the joint venture to find its own way promotes harmony among parents (since sacrificing the venture's stand-alone performance to suit one parent is not likely to suit the others).”

Researchers similarly face constraints when gauging IJV effectiveness. The variety of venture types limits the validity of any single performance proxy when studying a broad cross-section of ventures. Even if performance measures such as IJV profitability are appropriate for a particular sample, data on individual IJVs' performance levels are difficult to come by. The fact that IJV longevity and survival tend to correlate with parent firms' overall perceived satisfaction with IJVs is another justification offered for studying IJVs using survival analyses (e.g., Barkema, Shenkar, Vermeulen, & Bell, 1997; Geringer & Hebert, 1991):

It must be clearly noted that longevity is an imperfect proxy for "alliance success." Longevity can be associated, for instance, with the presence of high exit barriers. And in some instances, success can be operationalized in terms of other measures such as profitability, market share.... Yet, achievement of these latter objectives may be thwarted by premature, unintended dissolution of the GSA [global strategic alliance]. Furthermore, objective performance measures (e.g., GSA survival and duration) are significantly and positively correlated with parent firms' reported (that is, subjective) satisfaction with GSA performance..., so that for many research purposes the use of longevity

as a surrogate for a favorable GSA outcome is probably not too restrictive (Parkhe, 1991: 582).

It should be emphasized, however, that empirical research also identifies limitations associated with employing IJV longevity or similar performance proxies. For instance, the durability of an alliance is not related to the satisfaction of the parent corporation's strategic needs (Parkhe, 1993b), and venture age is uncorrelated with parent firms' satisfaction levels (Beamish & Banks, 1987) and specific dimensions of IJV performance such as cost control, quality control, labor productivity, and the need for parental involvement (Geringer & Hebert, 1991).

### **Parent Firms' Resource Contributions and Transaction Costs**

Theoretical research on IJVs points out a number of direct and indirect benefits that parent firms may derive from cultivating long-lived and stable relationships. Authors invoking transaction cost theory, for example, suggest that IJV longevity is desirable to safeguard parent firms' resource contributions *ex post* (e.g., Ring & Van de Ven, 1994). Likewise, the *ex ante* expected duration of an IJV encourages parent firms to make transaction-specific investments that can enhance efficiency (e.g., Parkhe, 1993b). Long-lived and stable relationships can facilitate the development of specialized language, reduce costs through learning-by-doing, and economize on set-up costs (Williamson, 1979). Over time, deepening trust and interdependence encourage information sharing and simpler terms of exchange to coordinate activity (Beamish & Banks, 1987; Ring & Van de Ven, 1992).

The benefits of venture longevity and stability also depend on the robustness of the IJV governance structure to *changes* in transactional conditions as the relationship evolves. Chi (1994) submits that JVs are advantageous relative to outright acquisitions because residual claimancy and control can be flexibly adjusted. On the other hand, when the collaborative basis of a venture shifts, perhaps due to changes in parent firms' strategies, transaction costs from renegotiations can increase and adversely affect the relationship.

(Klein, Crawford, & Alchian, 1978). As such, the flexibility of residual claimancy and control is not absolute, and IJV adaptation costs can be nontrivial:

If... the local partner loses trust in the foreign partner (i.e., perceives that the MNE partner is operating opportunistically), [it] may move toward the formalization or enforcement of various contracts surrounding the operations of the venture.... [T]he costs of such actions would negate much of the rationale behind establishment of the joint venture in the first place (Beamish & Banks, 1987: 9).

Although the focus of the above discussion is on individual ventures, the benefits of IJV longevity and stability potentially extend across alliances and time. For instance, IJVs have been seen as investments in reputational assets, the value of which affects the firm's transaction costs incurred in engaging in future collaborative relationships. More specifically, firms that are able to develop a reputation for forbearance may be in a position to reduce their search and negotiations costs when they seek out alliances in the future (Buckley & Casson, 1988).

Having synthesized the major rationales for using IJV longevity and stability as indicators of collaborative success, the next two sections critically examine this practice. First, level of analysis issues are examined that must be considered when theorizing about IJV effectiveness. This discussion highlights the limitations of focusing attention on the venture as the unit of analysis. Second, some of the parameters of a corporate strategy view of IJV dynamics are introduced. This perspective suggests that the value of IJV longevity or stability is contingent upon the IJV's role within the firm's evolving strategy.

## **LEVEL OF ANALYSIS ISSUES**

“What if a joint venture ‘does well,’ but at the expense of a parent’s interests?” (Anderson, 1990: 19). This question underscores the fact that the impact of an IJV on a parent firm might be very different from the firm’s share in an IJV’s performance. The factors that enhance or reduce IJV performance may also have effects of different magnitudes

or directions on parent firm performance. It is therefore important to consider several issues that arise when the IJV is adopted as the unit of analysis for studying interfirm collaboration. From a corporate strategy perspective, four primary concerns become evident: (1) the IJV is viewed independently from the parent firm's corporate strategy, (2) differential payoffs to parent firms are overlooked, (3) corporate flexibility can be confused with IJV adaptability, and (4) the IJV is abstracted from other related alliances.

### IJVs as Ends versus Means

When the IJV rather than the parent firm is the unit of analysis for assessing effectiveness, the venture is seen as an end in itself rather than as a means by which the parent firm achieves some objective. A corporate strategy perspective on collaboration would instead view IJVs as specific instruments of the parent firm's overarching strategy for deploying and developing resources and for participating in product and geographical markets. Lorange and Roos develop this line of reasoning:

[I]t is the parent's perspective regarding strategic positioning as well as the input/output of resources that dictate the form of strategic alliance. This underscores the fact that strategic alliances are a means to an end – not the end per se, and is in contrast to authors who argue for the alliance as a phenomenon on its own, with its own strategic life and value.... [W]e discuss how a strategic alliance should be seen as evolving over time, thus certainly taking on a life of its own. However, *we strongly contend that a strategic alliance should always be viewed from the perspective of its parents* (emphasis added; 1993: 12).

When the IJV and parent firm are interdependent, decisions regarding the IJV that are optimal for the parent firm can be sub-optimal when viewed from the perspective of the IJV as a stand-alone entity. For example, if positive IJV-parent spillovers result from a venture's R&D efforts, the parent firm may seek to over-invest in venture R&D from the IJV's point of view. Conversely, any negative IJV-parent spillovers stemming from an IJV activity (e.g., product cannibalization from IJV exports) may encourage the parent firm to under-invest in that activity from the venture's vantage point (Hladik, 1985). In either case, the JV's impact on a parent firm can differ from what IJV performance may indicate.

## **Differential Parent Firm Payoffs from IJVs**

When collaborative effectiveness is judged at the IJV level using performance proxies such as longevity and stability, a related problem arises: parent firms' unique payoffs from a venture are not explicitly considered. The assumption is that whatever influences IJV performance has a similar effect on both parent firms. However, what constitutes a good IJV outcome for one parent firm may be less attractive to a partner. This is particularly the case when parent firms maintain different priorities regarding the acquisition of know-how, financial returns, risk-sharing, and so on. Even for a common collaborative objective, however, firms may experience very different IJV payoffs. For instance, Doz (1996) identifies five dimensions along which parent firms may learn at different paces: environmental, task, process, skill, and goal learning. Parent firms may also differ in their abilities to integrate such knowledge obtained from the IJV into other business units (Inkpen & Crossan, 1995).

## **IJV Adaptability and Corporate Flexibility**

The frequent result of asymmetric payoffs, particularly when learning is involved, is that the IJV terminates, often in an unexpected manner for one of the parties (Inkpen & Beamish, 1997). However, when the IJV is taken as the level of analysis, parent firm objectives like corporate flexibility can be incorrectly equated with venture continuance and adaptation. In fact, venture adaptability may be sufficient, but is not necessary, for corporate flexibility. Even if many IJVs are unresponsive to external or internal disturbances (Williamson, 1991), firms can achieve flexibility by using a portfolio approach of forming and ending alliances as capabilities evolve (Garud, 1994). Go-it-alone entries commonly supplant collaborations in uncertain, high-tech industries placing a premium on flexibility (Mitchell & Singh, 1992), and research finds that IJVs are susceptible to shifts in parents' strategies and organizational structures (Franko, 1971; Harrigan, 1985). While the individual

IJV may not be adaptable as a governance structure, flexibility can be achieved in terms of parent firms' development and deployment of resources and business portfolios.

### **IJV Embeddedness**

Finally, just as performance assessments at the IJV level can fail to account for a venture's particular role in a parent firm's evolving corporate strategy, important relationships between parent firms' alliances are minimized when effectiveness is judged at the IJV level. When an IJV is related to other alliances with a partner or the IJV is embedded in a more dispersed network of alliances, drawing inferences from an individual IJV's behavior or performance is problematic given the interdependencies among alliances that both constrain action and open up new opportunities (e.g., Gulati, 1998). Applications of network analysis demonstrate that the structural and dynamic features of networks influence firms' internalization decisions, innovation, and performance (e.g., Barley, Freeman, & Hybels, 1992; Kogut, Shan, & Walker, 1992; Powell & Brantley, 1992; Walker, 1988). To the extent that an IJV is embedded in a network of collaborations, the firm's share in the IJV's performance may understate or overstate the actual impact of the collaboration on an individual parent firm.

## **IJV DYNAMICS AND CORPORATE PERFORMANCE**

If the effectiveness of an IJV is meaningfully viewed from a parent firm's perspective, then IJV investment decisions and processes need to be evaluated within the context of the parent firm's evolving corporate strategy. From this vantage point, the value of different phases of collaboration and IJV phenomena – venture formation, longevity, instability, termination, etc. – depends upon the parent firm's objectives for the venture, *ex post* exchange conditions, and the evolution of the IJV's governance structure (see Figure 1). In the following discussion of these contingencies, we submit that long-lived IJVs or venture stability can actually be *less* attractive than transitory IJVs or venture instability in specific

contexts. Likewise, gauging the effectiveness of collaboration using indicators such as longevity or stability might be more appropriate in certain circumstances than others. The main conclusion for theoretical and empirical research on IJVs is that longevity or stability *per se* provides little indication of a collaborative strategy's effectiveness. Antecedents to IJV longevity versus instability can provide insights into IJV dynamics, but these influences may or may not be related to parent firm performance.

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Insert Figure 1 About Here

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### **Collaborative Objectives**

While the value of venture longevity versus instability likely differs across the numerous types of alliances and the specific motivations firms attach to each, the distinctions are perhaps most pronounced along the dimension of learning. Take, for instance, a parent firm forming an IJV purely to exploit an existing product advantage in a new country in which a local partner provides downstream capacity. Such an IJV might be initiated to overcome local ownership restrictions or to obtain scale economies if a market failure exists in an intermediate product market (Hennart, 1988). Firms often structure such alliances as autonomous businesses designed to penetrate and serve the local market on an on-going basis.

Koza and Lewin (1998) distinguish such IJVs, exploitation alliances, from collaborations in which one or more parties has an exploration intent involving more substantial learning objectives. They emphasize that researchers face the challenge of choosing a suitable level of alliance disaggregation since heterogeneous alliances should not be pooled yet all alliances cannot reasonably be treated as unique. The exploration-exploitation categorization scheme provides an intermediate solution and has implications for alliance design and management. For instance, Oxley (1997) observes that firms' exploration objectives make the specification of property rights problematic. As a result, appropriation hazards are higher, such alliances are potentially more sensitive to disturbances, and

termination likely leads to asymmetric payoffs for parent firms. Khanna, Gulati, and Nohria (1998) apply patent race models to exploration alliances and suggest that racing behavior reflects the firms' private and common benefits and partners' incentives for investing in learning. Hamel's remarks suggest that parent firm performance and venture longevity can be inversely related in some learning contexts:

Where internalization [of the partner's skills] is the goal, the longevity and 'stability' of partnerships may not be useful proxies for collaborative success.... A long-lived alliance may evince the failure of one or both parties to learn.... [W]here a failure to learn is likely to undermine the competitiveness and independence of the firm, such contentedness should not be taken as a sign of collaborative success (1991: 101).

The conclusion from this work is that longevity and stability are not suitable as performance proxies when one party has or develops a learning objective. Although IJVs might be classified into exploration and exploitation categories, many will involve both objectives in varying degrees. That parties may also differ in their collaborative objectives, and learning ventures often create a winner and a loser, reinforces the importance of viewing collaborative effectiveness at the parent firm level. Although IJV longevity or stability may be more appropriate for IJVs of an exploitation variety, the following discussion considers *ex post* problems confronting these and other IJVs within the more general class of hybrid governance structures.

### ***Ex Post Exchange Conditions***

Researchers studying IJVs using a transaction cost perspective have discussed the challenges firms confront in keeping collaborative relationships stable in the face of opportunism (e.g., Brown, Rugman, & Verbeke, 1989; Park & Russo, 1996; Park & Ungson, 1997; Teece, 1992). Although IJV instability may often be an outcome of some manifestation of opportunistic behavior, venture instability can also be seen as a specific response to changes in other transactional conditions. Neither does IJV instability have to adversely affect parent firms. Because firms initially select IJVs over alternative governance

structures under well-defined conditions, changes in these conditions can affect the on-going attractiveness of an IJV. The value of IJV longevity, and thus the suitability of using it as a performance proxy, depends upon the magnitude and direction of changes in *ex post* exchange conditions.

In transaction cost analyses, asset specificity is considered to be the most important transactional attribute (e.g., Williamson, 1985), so for illustrative purposes the focus of the discussion will be on this element of the framework. Figure 2 depicts the main theoretical result: firms choose market-mediated exchange at low levels of asset specificity, internal organization is preferable beyond some threshold value, and hybrid governance structures blending features of markets and hierarchies are most efficient at intermediate levels (Hennart, 1993; Williamson, 1991).

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Figure 2 also illustrates that IJV termination rather than IJV continuance can be an efficient response under several circumstances. First, parent firms' perceptions of asset specificity may change during their involvement in a partnership. Transaction cost theory acknowledges "failures in alignment" can occur because of managers' cognitive limits, and "[t]he standard transaction cost economics [treatment assumes] that parties to a transaction adopt a relatively farsighted approach (or quickly learn from mistakes, including the mistakes of others)..." (Williamson, 1994: 371). Parent firms' perceptions of transactional attributes such as asset specificity may change over time, particularly if parties' resource contributions are organizationally embedded or are to be combined in complex ways. Further, because the context of exchange has both social and economic dimensions (Itaki, 1991; Zaheer & Venkatraman, 1995), perceptions of transactional features will likely change a good deal during IJV formation and IJV implementation phases as information accumulates and collaborative operation unfolds. To the extent that the "learned" level of asset specificity is

substantially different from the initial appraisal, a governance misalignment can become apparent.

The attractiveness of IJV survival versus IJV termination depends upon changes in asset specificity involving *movements along* the governance cost curves in Figure 2. For example, Honeywell and Ericsson formed a 50-50 IJV to develop software for adapting a telecommunications switch to the U.S. market. Honeywell learned the relevant technologies to link its control and information systems businesses, and it had little incentive to commit resources to the expanding venture. Ericsson, however, was particularly interested in a packet switch to support e-mail and was becoming increasingly dependent on the IJV. As the expanding venture required more investments and coordination, Ericsson acquired Honeywell's equity stake and converted the IJV to an internal unit (Kogut, 1988a). If asset specificity instead diminishes significantly, the firm may prefer to switch to a less hierarchical alliance type or market-mediated exchange. Such a switch parallels Dunning's contention that the "...shifting of the balance of advantages of hierarchies and external markets..., has led to frequent realignments of the functions and boundaries of MNEs," and "divestment will occur, *providing* that the exit costs (which themselves involve transaction costs) do not outweigh the savings of using the market" (emphasis in original; 1988: 23).

Third, the efficiency of an IJV relative to alternative governance structures also depends on changing exogenous factors that can *shift* the three governance cost curves in Figure 2. Relative shifts in the curves result in new placements for threshold levels  $k_1$  and  $k_2$ , and hence altered governance structure policy regions. For instance, changes in political risk are thought to have a greater impact on the governance costs for internal organization than for hybrids since a local partner can shield the firm from hold-up on the part of the local government (Teece, 1986). As a result, decreases (increases) in political risk can make IJVs less (more) attractive relative to internal organization.

Similarly, changes in host country conditions can affect the on-going attractiveness of an IJV by changing the feasible set of governance structures. For instance, the firm might initially select an IJV in response to investment constraints imposed by the local government (e.g., Blodgett, 1991; Fagre & Wells, 1982; Gomes-Casseres, 1989; Stopford & Wells, 1972; Vernon, 1971). Liberalization expands the firm's feasible set of governance structures such that complete ownership might be attractive for a now second-best IJV. This pattern appears consistent with the recent conversion of IJVs to wholly-owned subsidiaries in the former Soviet bloc as legal systems have become more accommodating (Shama, 1995). Use of IJV longevity as a performance proxy is therefore less appropriate when sampled ventures operate in countries with shifting investment policies. The general conclusion of this section is that the parent firm consequences of IJV longevity versus IJV instability is contingent upon endogenous and exogenous changes in *ex post* exchange conditions (see Figure 3).

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### IJV Governance Evolution

The discussion above suggests that the parent firm performance implications of IJV longevity versus IJV instability also depend upon the specific means by which the venture ends. For example, if asset specificity is significant, internalizing the IJV to achieve greater coordination by buying out the partner's equity stake will be more attractive for the parent firm than selling its equity stake or liquidating the venture and losing some of the value of resources committed to the IJV. Conversely, the impact of IJV internalization may well be negative when continuation of the IJV or a simpler governance arrangement would suffice due to low asset specificity.

One result of the literature's use of IJV longevity and stability as performance proxies is that IJV instability has come to represent a miscellaneous, residual category that has been under-theorized. Despite the widespread use of the term, it is often not defined, it is used to

mean different things across empirical studies, and many distinct types of instability are aggregated in theoretical and empirical research on IJVs. For example, the term has been applied to incremental ownership changes in on-going ventures (Blodgett, 1992), transcending the 50-50 ownership boundary (Franko, 1971), venture reorganizations (Killing, 1983), and various kinds of termination (e.g., Barkema, Bell, & Pennings, 1996; Li, 1995), and studies pool multiple types of instability together. To the extent that different types of instability are subject to different influences or have different implications for parent firms, however, it is necessary to differentiate specific IJV trajectories for a parent firm since different governance changes are involved.

The importance of differentiating IJV instability types also falls out of the perspective that IJVs should be viewed within the context of a parent firm's evolving corporate strategy. For instance, in many cases IJVs end by one firm acquiring the venture from a partner. The acquiring firm expands its boundary and increases its resource commitment to the venture's business while the selling party incrementally constricts its boundary and applies the financial proceeds to other uses. As such, the two parent firms in an IJV regularly experience instability in different ways. The parent firm performance implications of these changes depend upon the IJV's transactional features, switching costs, the price at which the buyout occurs, and other factors. For example, the acquiring firm may capture value from internalizing a venture subject to an unexpectedly favorable demand shock (Kogut, 1991). The selling firm potentially benefits through a capital gain, yet this firm cannot rely on a competitive bidding market as in other asset divestitures. The value of IJV continuance versus IJV internalization or sell-off to a partner therefore depends on many factors that make it difficult to assume that IJV instability affects parent firms adversely or equally.

In other cases, parent firms may divest the venture to a third party or liquidate the IJV. Here IJV longevity can be unattractive if firms maintain or escalate their commitment to a relationship in the face of negative signals due to top management biases, managers'

emotional attachments, internal political processes, agency problems, and so forth (e.g., Cullen, Johnson, & Sakano, 1995; Tallman & Shenkar, 1994). The fact that firms can use divestitures to create value for shareholders (e.g., Boudreaux, 1975; Hearth & Zaima, 1984; Jain, 1985; Klein, 1986; Rosenfeld, 1984), in particular when exiting an industry with the aim of reconfiguring operations (e.g., Montgomery & Thomas, 1988; Montgomery, Thomas, & Kamath, 1984), suggests that some IJV divestitures can be more attractive than IJV continuance. By contrast, Hennart, Kim, and Zeng (1998) argue that IJV liquidation, especially early in the venture's evolution, provides a better indication that firms were unable to generate much common value. The conclusion is that just as the attractiveness of IJV longevity or stability is contingent upon firms' collaborative objectives and *ex post* exchange conditions, the performance implications of an IJV depend upon the IJV's specific governance changes and the circumstances surrounding these changes.

## **IMPLICATIONS FOR IJV RESEARCH**

This paper considered the frequent use of IJV longevity and stability as performance indicators since the literature's inception and brought together the theoretical and methodological rationales for this tradition. Prior research based upon this approach has yielded important insights into cross-border collaboration, the obstacles firms face when building an international presence via partnerships, and the distinctiveness of IJVs as hybrid competitive and organizational entities. This paper also sought to identify the limitations of this approach and the value of building more integrative, contingency perspectives to investigate collaborative effectiveness and the dynamics of IJVs within firms' evolving corporate strategies.

One of the conclusions of the paper is that care is needed when interpreting or drawing normative implications from survival models of IJVs. The discussion of level of analysis issues, for example, indicates that if variable  $X_1$  is positively related to IJV

longevity, it does not follow that “more of” X<sub>1</sub> is to one or both parent firms’ advantage. Implicit in such statements is the view that IJV longevity is in parent firms’ best interests, while IJV instability reflects the failure of parent firms or the venture itself, an assumption that we have suggested is questionable in a wide array of situations and merits testing. Such statements also discount the roles transitional IJVs can play in firms’ corporate strategies and the different options available to parent firms in managing IJV evolution. Future studies of IJV survival might therefore avoid or qualify normative conclusions when drawing inferences from IJV instability models.

A related implication of this paper is that assumptions regarding IJV longevity or stability are neither universally valid nor invalid, but these basic assumptions can be more or less appropriate in different partnering contexts. One could envision many research questions for which the IJV is a relevant unit of analysis and IJV instability would be an interesting regressor or outcome. The paper also emphasized that IJV longevity is more apt to be tightly connected with parent firm performance outcomes in specific circumstances. These issues can be addressed in part through sampling as well sensitivity to the generalizability of empirical evidence. In particular, the paper suggested that it is worthwhile to distinguish exploitation versus exploration ventures when studying IJV dynamics, the appropriateness of using IJV longevity as a performance proxy depends upon IJVs’ different *ex post* exchange conditions, and observed effects may well differ across specific types of IJV instability representing different governance changes.

Beyond these specific suggestions for interpreting IJV survival analyses and conducting work in this area, the paper represents a call for alliance research to develop and test contingency perspectives on alliance dynamics and their effects on parent firms. However, a number of challenges exist for building more integrative alliance models that tie together antecedents to collaboration, firms’ governance choices across the IJV life-cycle, *post-formation events and processes, and parent firms’ performance outcomes*, as portrayed

in Figure 3. First, alliance research in these directions requires development of a theoretical framework or multiple frameworks to build and test contingency perspectives on alliance dynamics. For instance, existing applications of transaction cost theory in the alliance literature tend to be static in nature and do not directly incorporate parent firm performance (Shelanski & Klein, 1995; Silverman, Nickerson, & Freeman, 1997). Research is therefore needed to determine the applicability of transaction cost theory in such dynamic settings to address selection-based assumptions employed in reduced-form analyses of firms' governance choices, to study the changing attributes and governance of transactions and their inter-relationships, and to consider the possible efficiency consequences of different forms of IJV evolution. Other theoretical perspectives such as real options theory, organizational learning, and bargaining models might also be used alone or in combination to improve understanding of IJV dynamics and the performance implications for parent firms.

Second, researchers continue to face the practical constraint of measuring and modeling the parent firm outcomes of alliances. Event study methods relying on share price reactions can be useful for examining the impact of discrete governance decisions such as IJV formation or different types of IJV termination on parent firms, but these techniques are not suitable for assessing gradual or anticipated changes in IJV governance. Methodological challenges also arise in building cross-level models from secondary data that incorporate dependent and independent variables at different levels of analysis, including the parent firm, the partner, the venture itself, and the IJV's environment (Klein, Dansereau, & Hall, 1994). Opportunities therefore exist for researchers to conduct longitudinal studies in the field and build tailored performance constructs from primary data.

Finally, alliance research would greatly benefit from the development of typologies to study IJVs and their evolution. The paper noted that this has been a call of many scholars for some time, and some progress has recently been made in this direction. The distinction between exploration and exploitation represents one way to deal with alliance heterogeneity

in a manageable fashion. Other recent research into the contractual hazards of alliances suggests that collaborations might be classified into unilateral non-equity, bilateral non-equity, and equity categories (Oxley, 1997). Opportunities also exist in terms of advancing the evolutionary component of an IJV framework. The paper observed that the term “IJV instability” is widely used, yet is applied in many different ways, and multiple distinct types of IJV instability are pooled together in theoretical and empirical research. Rather than searching for a uniform or exhaustive definition of IJV instability, the literature would benefit more by distinguishing alternative types of IJV evolution and termination, uncovering underlying mechanisms, and addressing the implications for parent firms. Different parent-specific types of IJV termination involving different governance changes are relatively straightforward to distinguish (e.g., the parent firm internalizes the IJV, sells out to a partner, sells out to a third party, liquidates the venture, etc.), yet more incremental governance changes during IJV evolution may be more difficult to identify and categorize. Very little is known, for instance, about the influences and implications of changes in IJV scope, the functioning of venture boards, rights allocations, and so forth. Future research might address unexplored questions such as the following: What affects such governance changes? Are these changes effective in stabilizing IJVs or do such changes hasten the venture’s termination? How do firms choose between alternative types of IJV adaptation and termination and with what effect? More integrative, contingency-based research along these lines could also begin to address the fragmentation of the IJV literature and the importance of various stages of collaboration in determining the effectiveness of a firm’s collaborative strategy.

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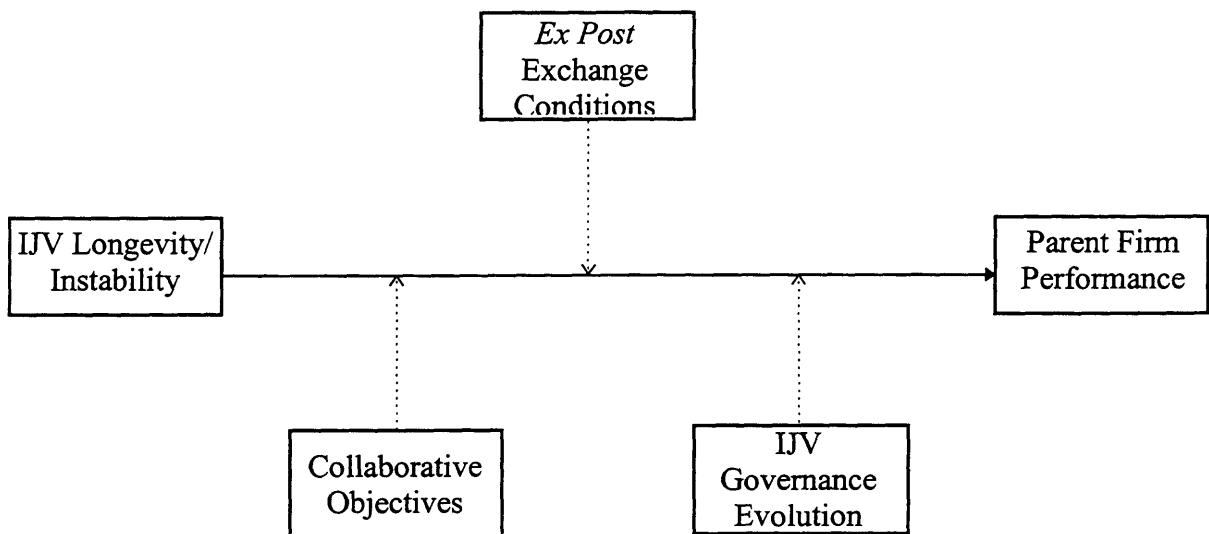
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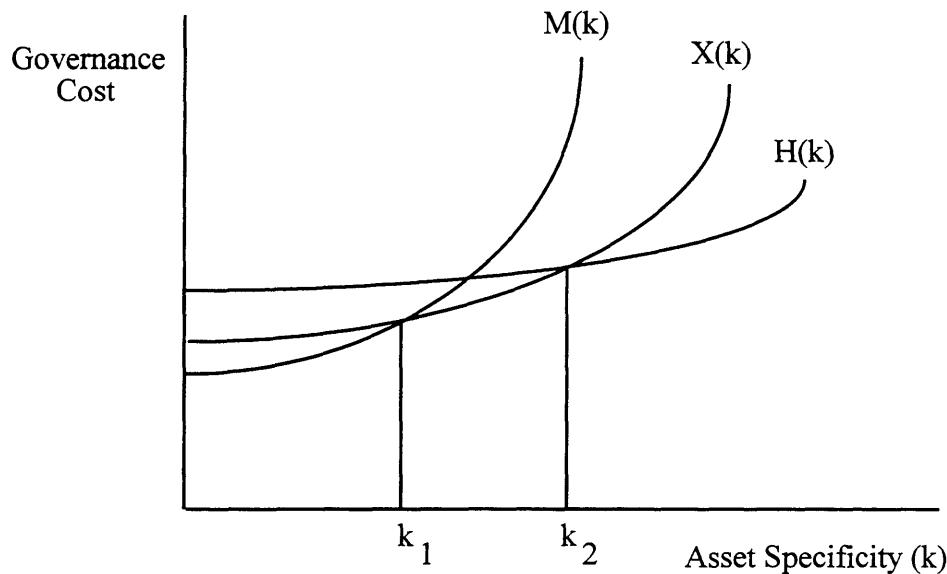
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**FIGURE 1**  
**IJV Dynamics and Parent Firm Performance**



**FIGURE 2**

**Governance Cost Curves for Market-Mediated (M), Hybrid (X), and Hierarchical (H) Exchange**



Source: Williamson (1991)

**FIGURE 3**  
***Ex Post Exchange Conditions and  
IJV Governance Changes***

