

**Resolving post-formation challenges in shared IJVs: The impact of shared IJV structure on inter-partner relationships**

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## **Resolving post-formation challenges in shared IJVs: The impact of shared IJV structure on inter-partner relationships**

### **1. Introduction**

Highly symbolic of the co-operative spirit, the shared management international joint venture (shared IJV) is a popular management control structure to govern IJVs (Buckley & Casson, 2002). Often known as the “50:50”, this structure requires IJV parents to hold an equal equity, equally share control and co-manage IJV operations (Killing, 1983). Yet research contends shared IJVs are inherently problematic and unstable (Owens and Quinn, 2007; Brouthers & Bamossy, 2006; Ding, 1997; Killing, 1983). The conditions of effective shared control, participatory decision-making, integrative operations, extensive resource and task interdependencies are difficult to sustain due to cultural misunderstanding between partners, operational conflicts, competition for control, and other issues (Ding, 1997; Johnson, 1997; Hambrick, Li, Xin, & Tsai, 2001; Killing, 1983; Pearce, 2000; Owens and Quinn, 2007). Indeed, some authors have found that shared JVs often evolve into either majority control ventures or wholly owned subsidiaries as partners become frustrated by their challenges (e.g. Brouthers & Bamossy, 2006).

At the same time, other authors consider potential performance-related benefits of shared IJV structures (e.g. Steensma & Lyles, 2000). They suggest that equal management input between partners may enhance learning and improve decision-making through mutual involvement and familiarity with IJV operations (Hill & Hellrigel, 1994; Saxton, 1997). Equal ownership and participation in decision-making may also engender commitment and perceptions of justice (e.g. Child, 2000).

Notwithstanding the valuable contribution of both perspectives, the research in both areas, with some exceptions (Barden, Steesma, & Lyles 2005; Salk, 1996; Salk

& Brannan, 2000), has been limited to examining the direct relationship between IJV structure and performance (e.g., Beamish, 1984; Ding, 1997; Killing, 1983; Mjoen & Tallman, 1997; Phatak & Chowdhury, 1991; Yan & Gray, 1994). Existing research primarily sought to compare the IJV performance outcomes of the shared structure compared with the dominant or unilateral structure (Killing, 1983; Fryxell, Dooley, & Vryza, 2002; Yan & Gray, 1994). Yet the lack of agreement on the significance of the shared IJV structure described above suggests that other factors may interfere to determine its performance outcomes (Child & Yan, 2003; Steemsa & Lyles 2000;). Importantly, the impact of IJV structure on post-formation challenges and JV performance may be more complex than a simple positive/negative effect. For instance, Barden et al. (2005, p. 157) find that “the entire debate may be overly constrained and simplistic” and propose that the impact of JV structure is mediated by other factors such as whether managers perceive the equity distribution as just. This suggests that we need to supplement the performance studies with more in-depth investigations of how IJV structures are associated with various post-formation conditions and processes that may in turn impact managers’ ability to address post-formation challenges.

There are a number of studies on how IJV partners may manage post-formation challenges, and many authors have suggested strategies such as adjustment and compromise, personnel exchanges, training and intensified communication (Arino & De Le Torre, 1998; Brouthers & Bamossy, 2006; Buchel, 2000, 2002; Das and Teng, 1998; Doz, 1996; Koza & Lewin, 1998; Kim & Parkhe, 2009; Kumar & Nti, 1998; Reuer, Zollo, & Singh, 2002). However, these studies have not specifically examined the interplay between IJV structure and post-formation IJV conditions. In the meanwhile, several IJV scholars put forward conceptual arguments that IJV

structure shapes post-formation management processes, including formal controls and partner relations (Contractor, 2005; Contractor & Reuer, 2014; Hennart & Zeng, 2005). The IJV's structure has been recognized as the organizational architecture that generates certain formal and informal control conditions that may provide the means to resolve post-formation problems (Gulati & Singh, 1998; Fryxell, Dooley, & Vryza 2002; Yan & Gray, 1994). However, none of the studies examine in detail how particular IJV structures generate specific control conditions and how, in turn, these conditions may help resolve specific post-formation challenges.

In this paper, we start to address these research gaps in the context of shared or 50:50 IJV structure that is widely regarded as problematic in the IJV literature. We aim to explore how the shared IJV structure makes possible certain relational conditions such as trust, commitment and communication. We also examine how these relational conditions, in turn, allow managers to cope with particular post-formation challenges. We focus on relational conditions as past IJV management and process studies have firmly established that positive relationships or “relational capital” has a major bearing on how IJVs proceed and perform (Brouthers and Bamossy, 2006; Cullen, Johnson & Sakano, 2000; Das and Teng, 1998; Doz, 1996; Kale & Singh, 2009; Liu, Ghauri, & Sinkovics, 2010; Muthusamy & White, 2006).

To accomplish this, we draw upon four case studies of shared IJVs between British multinationals and Asian partners. The institutional and organizational differences between European and Asian partners will often lead to challenges in IJV relationships – e.g. conflicts resulting from cultural differences (Mohr & Puck, 2005; Swierczek, 1994) – which provide a fertile context to investigate how shared IJVs cope with post-formation challenges.

The analysis of our case studies revealed that such features of the 50/50 structure as equal equity and equal division of management responsibilities in the IJV encourage partners to build trust, respect and commitment in their relationship and also to use more participatory and consensus-building strategies to address inter-organizational differences. These positive relational developments effectively provide opportunities and sometimes forceful motivation for the partners to resolve the challenges they experience in the post-formation stage.

Our findings contribute to the shared IJV literature through a more detailed and nuanced picture of the 50/50 structure post-formation (Child and Faulkner, 1998; Killing, 1983; Pearce, 2000). We respond to the call to create a more complex understanding of the post-formation effects of IJV control structures (Barden et al. 2005; Child & Yan, 2003; Steensa and Lyles, 2000), and ours is the first empirical investigation to examine the three-way relationship between the shared structure, relational conditions and the possibility of addressing post-formation challenges. Our finding that the shared structure can create organizational conditions that promote inter-partner trust and commitment challenges the argument that 50/50 structures are inherently detrimental to IJV performance (e.g. Brouters & Bamossy, 2006; Ding, 1997; Killing, 1983). We further provide support for prior tentative conceptualisations of shared structures as having positive effects on cooperation in IJVs (Child, 2000; Hebert, 1996; Steensa & Lyles, 2000) and yet we detail the organizational and relational outcomes of shared structures. We connect specific features of the shared structure, such as high operational interdependence and shared decision-making, to specific outcomes such as trust, commitment and diplomacy. These conditions help managers steer the IJV through conflicts and external crisis situations. In this way, we contribute empirical evidence to mostly conceptual studies on how the initial

structural decisions of IJV shape post-formation IJV behaviour and outcomes (Contractor, 2005; Contractor & Reur, 2014). On the practical level, our findings will assist practicing IJV managers in better understanding the ramifications of the initial decision of a shared IJV structure for post-formation IJV management.

The remainder of this article is organized as follows. We first explain the conceptual understandings that underlie our research. We present our conceptualization of the shared IJV's management structure, and then explain how the IJV relational conditions or the nature of the relationship between the IJV partners may impact the ability of the partners to manage IJV challenges. We then outline our theoretical understanding of how the shared structure may create particular relational conditions that then impact the ability of IJV partners to manage IJV challenges. Second, we explain our case study design, data collection procedures, and analysis. We then show our case analysis and discuss the findings. Finally, we illustrate the academic implications of the results, followed by limitations and future research directions.

## **2. IJV management structure**

### *2.1 Definition and dimensions*

Management structure has been defined as the pattern of division of power between the IJV partners in governing the IJV (Killing, 1983; Yan, 1998). The literature highlights two primary features of management structure: equity ownership and management control (division of management responsibility). The level of equity contributed by each partner provides control and influence through legally defined authority and formal decision rights (Liu, Adair & Bello, 2015; Mjoen & Tallman, 1997). Although the power of equity ownership to influence IJVs has been much

debated (Killing, 1983; Mjoen & Tallman, 1997), much scholarship agrees with the established theoretical argument of transaction cost economics that equity aligns the interests of partners, promotes future investments and reduces partner opportunism (Beamish, 1985; Hennart, 1988; Mjoen & Tallman, 1997). In cases of unequal equity share, partners with the larger equity can use majority voting rights to overrule other partners when disagreements occur (Brouthers & Bamossy, 2006).

Another important feature of an IJV structure is the management control arrangement. Yan and Gray (1994, p. 1994) define this as “the control exercised by the sponsoring organization in influencing a joint venture’s strategic and operational, decisions and regulating its important activities”. Control arrangement establishes the managerial division of labour and the amount of decision power each partner exercises over IJV strategy and operations. Although the management control arrangement is negotiated when the IJV is formed, it can change as the IJV progresses with some partners becoming more or less influential (Liu et al. 2015; Mjoen & Tallman, 1997; Yan & Gray, 1994;).

## *2.2 Shared management structure*

The “50:50” or shared IJV structure is a common approach to organize IJVs. In a shared IJV, partners make an equal equity contribution, have equal contractual control rights and formal power. As IJV parents co-manage IJV operations, they tend to share resources extensively and engage in frequent interaction and mutual consultation (Hambrick et al. 2001; Killing, 1983; Pearce 1997; Salk, 1996).

Research on the impact of the shared structure on the IJV performance is largely inconclusive. Many view the shared structure as prone to instability and under-performance. Killing (1983), Ding (1997), Owens and Quinn (2007) and others

find that shared power and decision-making often causes serious conflicts as partners' objectives usually cannot be perfectly aligned. Moreover, integrated operations and frequent shared decision-making may offer one partner opportunities to appropriate the other partner's assets (Kogut, 1988; Park & Ugson, 1997). Other studies, however, suggested that shared IJV can facilitate better relationships and performance. For example, shared IJVs can improve knowledge transfer and decision-making through mutual partner involvement and familiarity (Hill & Hellrigel, 1994; Saxton, 1997). Equal management control may generate more mutual consideration between IJV parents, promoting trust and reducing conflict (Bleeke & Ernst, 1993; Beamish, 1993; Steensma & Lyles, 2000; Yan & Gray, 1994).

### **3. IJV inter-partner relationship and managing IJV challenges**

IJV and alliance scholarship has long established the quality inter-partner relationship as a crucial factor for IJV success (Brouthers & Bamossy, 2006; Cullen et al. 2000; Das & Teng, 1998; Krishnan, Geysken, & Steenkamp, 2016; Mohr & Puck, 2013; Liu et al. 2010; Madhok, 1995; Robson, Skarmeas, & Spyropoulou, 2006). Strong relationships mean closer partner interaction, foster knowledge transfer and encourage the partners to adapt the IJV to evolving contingencies (Brouthers & Bamossy, 2006; Das & Teng, 1998; Kale & Singh, 2009; Madhok, 1995; Poppo & Zenger, 2002). Closer bonds between managers help them deal with conflicts and crisis situations more effectively (Robson et al., 2006; Schreiner, Kale, & Corsten, 2009).

Conceptually, inter-partner relationships are often described using the dimensions or conditions of trust, commitment and communication and/or influencing (e.g., Cullen et al, 2000; Kim & Parkhe, 2009; Mayer, Davis, & Schoorman, 1995; Madhok, 1995; Mohr & Puck, 2005; Muthusamy & White, 2006). We now define and



outline the possible benefits of these three specific relational conditions for managing IJV challenges:

*Trust* has been often considered a central issue in IJVs and other alliance forms (Boersma, Buckley, & Ghauri, 2003; Das & Teng, 1998; Krishnan et al. 2016; Mayer et al. 1995; Mohr and Puck, 2013; Schoorman, Mayer, & Davis, 2007). A common definition of trust is “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that party” (Mayer et al. 1995, p.712). Trust has been considered valuable in IJVs because it can reduce transaction costs and help generate new ideas when partners pool their knowledge (Bachmann & Inkpen, 2011; Brouthers & Bamossy, 2006). Trust can also influence the way partners perceive their disagreements (Ness, 2009). It may diffuse conflict as trusting partners are more likely to interpret each other's actions in a positive manner or view conflict as functional, encouraging them to discuss problems openly (Madhok, 1995; Lin, 2004). Trust can increase information sharing between partners, aiding problem-solving negotiations (Ness, 2009). Moreover, trusting partners are likely to have respect for another and empathise with each other's point of view (Krishnan et al., 2006).

*Commitment* has been viewed as highly beneficial for trust building, decision-making, and enhanced performance in IJVs (Chung & Beamish, 2010; Cullen et al. 2000; Isidor, Schwens, Hornung, & Kabst, 2015; Kwon, 2008). Commitment reflects a desire for continuing the IJV relationship via maximum effort, and the willingness to invest resources into the relationship (Cullen et al. 2000; Morgan & Hunt, 1994; Sarkar, Aulakh & Cavusgil, 1998). As commitment represents an internalised obligation to ensure a business relationship endures, it can provide IJV partners with

the strong motivation to manage post-formation challenges (Brouthers & Bamossy, 2006). Committed partners are more likely to balance short-term problems against long-term goals and resolve to work through issues (Cullen et al. 2000; Nakos & Brouthers, 2008).

The literature identifies two forms of commitment. *Calculative commitment* reflects the rational and economic side of commitment (Cullen et al. 2000). Calculative commitment is driven via the anticipated profits of the IJV and the costs of leaving it (Voss, Johnson, Cullen, Sakano, & Takenouchi, 2006). It is based on factors such as cost/benefit analysis, potential for returns, past investments, and switching costs associated with an IJV (Cullen et al. 2000; Voss et al. 2006). *Affective* commitment, on the other hand, involves a sense of identification, loyalty and psychological attachment between IJV team members (Cullen et al. 2000).

Finally, *communication and influencing* has been considered important for post-formation management of IJVs (Kim & Parkhe, 2009; Mohr & Puck, 2005). Communication is defined as “the formal and informal sharing of timely information between firms” (Anderson & Narus, 1990, p. 44). Quality communication may help address post-formation challenges. For instance, honest and open communication may allow partners to better understand the extent of their differences and get to know each other’s respective goals or practices (Kim & Parkhe, 2009; Mohr & Puck, 2005).

On the other hand, partners may utilize communication to resolve challenges on their own terms. Managers may attempt to change the actions of others through influencing (Pearce, 1997). Muthusamy and White (2006, p. 59) defined mutual influence as “*the relative degree to which partners influence each other's decisions about key issues in the specific alliance*”. IJV managers attempt to influence partner’s opinion and build consensus through rational persuasion, consultation and personal

appeals. Influencing may facilitate conflict resolution and joint decision-making (Beamish, 1993; Muthusamy, White, & Carr, 2007). The ongoing exchange and co-ordination between partners enhances relational ties and promotes mutual trust.

It is clear that relationship conditions and strategies play a highly constructive role to manage post-formation IJV challenges (Barden et al. 2005; Brothers & Bamossy, 2006). Yet none of the studies examine in detail the link between particular IJV structures and specific relational conditions and how, in turn, these conditions contribute to the managers' ability to address specific post-formation challenges.

To sum up, the nature of the relational conditions can significantly impact IJV partners' efforts to manage challenges. In the next section, we explore the linkage between the 50:50 structure, inter-partner relational conditions and opportunities for managing post-formation IJV challenges.

#### **4. Shared structure, inter-partner relationship and post-formation challenges**

Existing studies suggested a number of ways in which the shared IJV structure may facilitate better relational conditions within the IJV. Active sharing of management responsibility may encourage strong personal bonds between key managers, facilitating timely responses to problematic situations and enabling one way or mutual adaptation to overcome disputes (Schreiner et al. 2009). High level of investment (50% of capital costs for each partner) and perceived high exit costs can engender calculative commitment, which in turn, motivates partners to actively resolve disagreements (Sharma, Young, & Wilkinson, 2006). Balanced formal power and extensive resource interdependencies can sensitize partners against using hard or forceful measures to resolve challenges. Instead, they may adopt softer or informal measures such as communication-influencing strategies (Hambrick et al. 2001;

Pearce, 1997; Park & Russo, 1996; Salk & Brannen, 2000). Moreover, partners may find that the interactive and participative nature of shared decision-making encourages the development of managerial communication skills and politicking (Johnson, Cullen, Sakano, & Takenouchi, 1996). Such tactics may include rational communications, persuasion, consultation, personal appeals to pressure and legitimating tactics (Pearce, 1997). As Beamish (1988) argued, “shared management requires people who are willing to understand, learn and be persuaded, as well as being persuasive (p.65).

To conclude, the shared management structure may yield relationship conditions that could positively contribute to managing post-formation challenges. The relationship between shared management structure, inter-partner relationship and managing IJV challenges will constitute the primary focus of our study. We now detail our methodological approach.

## **5. Methodology**

We employed a case study methodology in this project. Previous research has proven the ability of case studies to yield rich data for investigating shared management IJVs (Salk, 1996; Salk & Brannan, 2000) and more generally, the IJV post-formation stage (Brouthers & Bamossy, 2006, Buchel, 2000, 2002; Hyder & Ghauri, 1989; Ness, 2009). We based our investigation on four cases of shared IJVs in order to increase the validity and reliability of our results by considering whether our findings would be replicated across different organisational situations (Eisenhardt, 1989; Yin 2003).

Following Eisenhardt (1989), our desire for in-depth enquiry restricted the number of cases to four. We employed “purposive sampling” for case selection (Patton, 1990). We selected IJVs structured through shared management where each

IJV parent contributed 50% of the equity and equally shared control in the IJV. These structural characteristics were verified through telephone conversations with corporate managers and site visits. The site visits for one to three days in each case thereby allowing the researcher to develop good relationships with the interviewees. All shared IJVs were based in the British retail sector as there was vibrant IJV activity in this sector when this study was conducted, which increased our chances of gaining access to organisations. In addition, at the time of the study, British retailers were actively forming partnerships with companies from culturally and institutionally distant locations, mainly in Asia, which provided a fertile context for exploring the management of post-formation challenges that can be heightened in contexts involving great institutional diversity. Our selected IJVs involved British multinational retailers with partners based in Taiwan (x 2), Turkey (x 1) and Japan (x 1). Table 1 provides an overview of the case companies.

**Table 1: Overview of Case Companies**

<b>Case</b>	<b>Retail sector</b>	<b>Host market of IJV entry</b>	<b>Year shared IJV established</b>	<b>Partner type</b>	<b>Ownership (at formation)</b>
A	Home Improvement	Taiwan	1994	Exporter/importer, real estate	50:50 50:50
B	Home Improvement	Turkey	2000	Diversified manufacturing and services.	50:50
C	Furniture	Taiwan	2001	Retailer	50:50
D	Music	Japan	1991	Retailer	50:50

We collected the data in 2004. We interviewed 26 British senior managers directly involved in shared IJVs. Access to partner managers was not possible as they were based at geographically distant locations. Interviews were conducted in person, on the British parent company premises, averaged around one hour and twenty minutes in

duration and were recorded with respondent's permission and transcribed within five days. Table 2 provides details of interviews.

**Table 2: Interview Details**

Case	Personnel interviewed	Location of Interviews	Case documents reviewed
A	General Manager Director of International Development (2) International Trading Director, International Strategy Director Director of International Property Director of Human Resources International Marketing Manager	Head Office (UK)	Corporate annual report Newspaper clippings on JV, and market context.
B	General Manager International Property manager Director of Human Resources International Marketing Manager International Development manager International Trading Director, International Strategy Director	Head Office (UK)	Corporate annual report Newspaper clippings on JV, and market context JV Property team briefing report.
C	Director of International Operations Director of International Marketing Director or Business Development (2) International Marketing Manager Director of Finance General Manager	Head Office (UK)	Corporate annual reports JV business plan Newspaper clippings on JV, and market context.
D	General Manager Chief Executive Officer Director of Marketing Director of Finance	Head Office (UK)	N/A

We interviewed multiple informants within each shared IJV to minimize recall bias and yield rich data (Eisenhardt, 1989; Yin, 2013). The focus was on the individuals directly involved in and therefore possessing knowledge about the

establishment and management of the IJVs. The interviews were loosely structured to give our respondents the freedom to discuss subjects that they considered pertinent. The structure was provided by the general framework derived from the literature: we encouraged the interview respondents to reflect on specific areas of their IJV experience such as the meaning and nature of the shared management structure in their IJVs, the challenges they experienced in post-formation IJV management, whether and how they addressed these challenges, and what helped them address them. In this way, we ensured that the interviews contained information relevant to our research objectives but that the interview respondents were not overly constrained in their responses by the researchers' perspectives. The resulting verbatim interview transcripts were about 20 single-spaced pages in length each and contained rich narratives of IJV experiences.

Although most of the IJVs were no more than three years old when our data was collected, we specifically used the recall method to elicit respondents' experiences of IJV management. Recall method is typically used to tap into individuals' memories where information specific to one's personal history or experiences is stored (Bagozzi & Silk, 1983; Bradburn, 2004, Gardial, Clemons, Woodruff, & Schumann, 1994; Tulving, 1983). To minimize recall bias, we asked respondents to focus on their most recent, and therefore best memorized experiences of the shared IJV. We provided stimulus cues that were highly relevant in an IJV management context – asking managers about their experiences of IJV conflict/disagreements, social bonds, communication and persuasion – to facilitate good recall (Sudman & Bradburn, 1973).

The interview transcripts were sent back to the interview participants for checking to maintain the data reliability and validity (Eisenhardt, 1989). Finally, to

further enrich and corroborate the interview data, secondary data was used (Loane, Bell, & McNaughton, 2006; Piekkari & Welch, 2011), for example, annual reports, newspaper clippings, and internal briefing reports, where permission was granted.

Data was analyzed through thematic content analysis. Several stages of coding were used (Miles & Huberman, 1984). We used manual coding (without the assistance from qualitative data coding software) in order to preserve the narrative integrity of the transcripts and make sure that we always interpreted the coded sections of the text within the context of the rest of the conversation. First, we identified and highlighted interview passages that referred to various aspects of the key themes in our research questions – the nature of the shared management set up within the case IJVs, post-formation problems experienced by the interview respondents, post-formation relational conditions, and managerial responses to post-formation challenges. This level of coding involved themes found in the literature (e.g. task-related conflicts) and also themes that emerged from the data (e.g. management errors).

The second stage of analysis involved reducing the number of codes through comparing the text in each code and merging closely related codes. This process also involved comparing the coding structures of different interviews within and between cases. This helped organise the data and make key themes more visible by establishing clearer coding system that was consistent over the whole data set. Finally, we explored the relationships between the different categories of codes to each other – e.g. whether post-formation challenges were discussed in relation to features of the IJV structure, whether managers used particular approaches to address post-formation challenges, and whether, in turn, these approaches themselves were associated with aspects of IJV structure. This allowed us to trace the relationships



between the three key areas of our research – the shared IJV structure, the relational conditions created by it, and managers’ attempts to resolve post-formation challenges.

The important limitation of our methodology is the fact that it was not possible for us to examine the non-British partners’ perspectives. The non-British IJV partners may have offered a different view of the relational outcomes, post-formation challenges and how they were managed. To compensate for this limitation and to improve data validity and reliability we relied on triangulation (Eisenhardt, 1989). We have triangulated the data in two ways: the use of multiple cases, and multiples informants within each case. First, we used four cases which allowed for comparative analysis between the cases, as well as a deeper and richer look at each case. Second, we interviewed multiple informants within the British partner companies to reduced selective memory bias. As a result, we found a strong degree of agreement in the accounts of our multiple informants.

## **6. Findings**

The findings section is structured as follows: First, we outline the major features of the shared structure of the case IJVs to provide the background information on the cases. Second, we summarize the challenges that our interviewees experienced during the post-formation stage. Finally, we present the analysis that demonstrates how the shared IJV structure allowed particular relational conditions to arise between the IJV partners that, in turn, helped them address the post-formation challenges.

### *6.1 Shared management structure*

All IJVs in our sample included two partners, each contributing 50% equity into the venture. The IJV agreement in each case involved partners having equal decision-

making authority and responsibility for strategy and operations. In case A, for example, partners agreed to share strategic control, with the joint IJV board taking decisions in each quarter. The partners jointly formulated major policies and engaged in joint decision-making in store operations, marketing, finance and HR. Case B partners had equal representation on the IJV board, meeting quarterly to discuss strategy and policy, and engaged in joint decision-making over operations, sourcing, marketing and personnel.

At the same time, our cases showed that shared IJV structures are more complex than a simple equality of decision-making power based on equal equity and contractual control arrangements. Equal equity contribution did not always mean equal power. The partners sometimes used other management tools to gain influence. In some cases, the attempts to gain influence beyond the 50% vote resulted in problems. In other cases, subtler strategies were used that allowed the companies to increase their influence while maintaining good relations with their partners. In cases A, B and C, British partners used expatriate managers to supplement their control. In Case A, the British company sent seven British expatriates into the IJV during the initial period to work with two partner managers and the partner's chairman. These British expatriates had significant influence on operations but not without problems. They tended to promote their own corporate philosophy for the IJV and were reluctant to involve the partner in operational decision-making. This resulted in conflicts with the local partner. In Case C, however, the British seconded three British expatriates to the venture and the local partner contributed three managers. This more balanced team worked well together. Through prior experience of franchising in Asia, the British partner in Case C recognized the need to develop good relations with their local partner and to practice shared control.

British partners also used their operational business knowledge to gain more influence in the relationship. In Cases A, B and C, the British partner had somewhat greater influence over operations. In Case C, for example, the IJV was based on the British business model and the British partner had superior retailing expertise, allowing them stronger influence in store operations. However, both partners were committed to consensus-based decision-making and managed to maintain excellent relations:

*“This joint venture is very much operationally led by us, however we makes decisions together as it is a 50:50. The partner is learning about the business.” (Case C/General Manager)*

*“I think if is to be a joint venture, I believe it has got to be a 50:50 and you have got to work out your differences on that basis. We never saw the need to have control. We saw the need to have influence, but we didn’t see that being through equity, we saw that through the relationship.” (Case C/Finance Director)*

## *6.2. Post-formation challenges*

Our analysis identified the following categories of post-formation challenges: operational task-related conflicts generated by inter-firm diversity that sometimes also led to relational conflicts, disagreements over IJV strategy, and resourcing issues and management errors. We discuss each category in turn below.

### *6.2.1 Task conflict caused by inter-firm diversity*

The most common challenge in our cases involved task conflict or disagreements on operational policy. A major source of inter-organizational differences were the diverse institutional and organizational backgrounds of the British and Asian partners. For example, British companies in Cases A and C partnered with family Asian companies. Organizational governance differences between the British MNEs and Asian family firms created conflicting viewpoints in strategic and operational planning. In Case A, for example, divergent styles of decision-making generated disagreements in planning, store operations and media engagement. Moreover, relational type conflict resulted when frustrated British expatriates ignored the partner in operational decisions:

*“We started to have a lack of understanding and communication with the partner as to their need for involvement in operations, that is, we were ignoring them” (Case A/International Trading Manager).*

The behaviour of the British partner in Case A angered the local partner who then punitively removed British IJV staff work permits, which escalated the crisis and raised discussions about IJV termination. In contrast to Case A, the British and Asian partners in Case B enjoyed good co-operation, capitalizing on similar corporate values, formal structures and internal governance procedures. However, despite these similarities, several operational differences resulted in task conflict. The first conflict concerned sourcing: extensive diversification allowed each partner to advance themselves as a likely supplier of operational resource inputs. Second, partners disagreed on the financial procedures for funding new stores:

*“The main reason why this 50:50 has been difficult is that because the partners can’t agree on funding. ... The issue was that the partner prefers*

*finance, and we prefer equity. Until you can reach agreement on the financing of the business, it will be very difficult to move anywhere. So for two years during the crisis we have stood still.” (Case B/International Business Development Director)*

Case C also experienced task-related disagreements. In contrast to the British managerial style, management by objectives was not the norm for the Taiwanese, neither was the formalized strategic planning. The Taiwanese partner rarely used quantitative metrics in strategic planning, nor was strongly devoted to the logic of profit maximization. At store level, the British expected the Taiwanese staff to identify process errors or products that required adaption to the local market. However, Taiwanese staff did not feel comfortable pointing out shortcomings of higher-ranking British managers. At a broader level, the Taiwanese partner in Case C resisted the British operating model. This generated disagreements between the partners, resulting in slower decision-making.

#### *6.2.2 Strategy-related conflict*

Much of the strategy-related conflict was linked with environmental volatility. In Case B, the 2000/2001 economic crisis in Turkey resulted in a sharp depreciation of the Turkish Lira and a contraction of GDP by 5.7%. Decreased sales and store performance altered the partners' strategic priorities for the IJV. The Turkish partner adopted a short-term and risk averse position, arguing to postpone expansion until trading conditions improved. The British, however, preferred to proceed with the initial strategic plan to gain competitive and scale advantages

Underlying this strategic conflict was a difference in the centrality of the IJV in each parent organization's broader strategy. The IJV held less importance for the

highly diversified and conglomerate Turkish partner than for the British multinational whose whole business model was focused on retailing.

Similar to Case B, the partners in Case D experienced incompatible strategic goals. Strategic differences generated disagreements over strategic plans and fostered internal competition for management control. British ability to maintain a strong bargaining position declined as dependency on partner resources increased. The company's subsequent entry into the US absorbed group resources, reducing capital and managerial support to the venture. Consequently, increasing dependency on the local partner securing debt finance and managerial resources forced the British to accept greater partner influence on strategy.

#### *6.2.3 Resource issues and management errors*

Resource issues and management errors created further challenges. In Case D, insufficient managerial and financial resources for the Japanese shared IJV created problems. In Cases A and B, when the British partners initiated the IJV, they gave limited consideration to how divergent partner characteristics would impact the operations. Moreover, the British partners' expatriates did not initially have the expertise to adjust to organizational differences. In case A, for example, the British partner staffed the shared IJV with inexperienced senior expatriate managers whose lack of regard for the partner and shared control led to misunderstandings and undermined co-operation:

*“In terms of our staffing, the expatriates in the early days of the business were not the right personalities from our side. We didn't look at personality and attitude to work in an Asian context that we do today” (Case A/International Marketing Director).*

In a similar way, in Case C, insufficient British organizational resourcing exasperated the challenges of sharing management control with a partner without retailing expertise. The internal training provision to upgrade partner knowledge and skills was grossly inadequate. This forced the British to totally rely on experiential and operational learning to upgrade the partner's knowledge and skill. Yet this was ineffectual because not all the British team had good product and sector expertise. Finally, in Case B, the contract failed to specify those policy issues which partners disagreed on.

### *6.3 Managing post-formation challenges in shared IJVs*

In each part of this section, we first outline our broad conclusions about the relationship between shared structure, relational conditions and the opportunities available for managers to cope with post-formation challenges, and then provide detailed examples of how the relationships between these factors unfolded in individual case IJVs. All positive outcomes of shared management structure were not observed in all cases.

#### *6.3.1 Mutual trust and respect*

As discussed above, shared management led to conflicts in some of our cases. At the same time, the requirement for close cooperation and shared the decision-making in a shared structure forced the partner companies in situations of prolonged exposure to each other, allowing them to learn about each other's strategic priorities and operations. This greater insider knowledge decreased uncertainty in interaction and allowed mutual trust and respect to develop.

Cases B, C and D showed how joint IJV management provided partners with motivation and opportunity to develop trust. Contractual shared responsibility and shared contributions formally required the partners to work closely together to manage multiple functional areas of the venture. This meant intensive co-operation, interaction and information transfers. For example, in Case B, while partners experienced task-related conflicts, they also had to learn about each other in order to share control. We observed a similar situation in Case D:

*“There an extraordinary level of learning that goes to make shared management a reality; ... in terms of learning and trusting each other and knowing what makes the other person tick.”(Director of Finance/Case D)*

*“As we were sharing control over [the IJV], we had to work very close together on a range of areas pretty much every day, including the senior people. We made decisions together, shared all the information necessary about the market, about company performance, about our views, so that has helped to establish trust in each other”. (General Manager/Case C)*

The growth of trust and respect between the partners helped manage post-formation challenges. In Case C, the formal mandate of shared operational control required IJV managers to work closely with each other in the same office. This physical proximity and the shared responsibility, supported by inter-personal similarity (gender and age) and good initial performance facilitated trust and respect within the team. When disagreements appeared, the already established trust and respect between the partners smoothed the tension and supported constructive open discussions and consensus building:



*“When we have had those operational problems, we have been able to sit round the table and sort it out. So that’s what I mean about relationship. It’s not all been smooth, we have had some times to look at each other in the eye and say this is not working out. The best part of having that sort of relationship is honesty and trust.” (Case C/General Manager)*

### 6.3.2 Commitment

Shared management also provided opportunities for the growth of commitment in inter-partner relationships. The fact that both partners provided large portions of equity and had high exit costs increased their calculative commitment and motivated them to make the relationship work. Partners put effort into resolving conflicts to recover their investment. Prolonged and intense interaction between the partners in some cases also resulted in strong affective commitment.

Calculative commitment was a major factor motivating the British partner in Case A to resolve conflicts. The 50% capital contribution, the significant ongoing financial returns and the exit cost encouraged the British partner to continue with the venture following the relationship crisis in 1997:

*“So even if the marriage is bad, both sides do not want to lose the children. We do not want to sell it and the partners don’t want to sell it. [Chairman of partner] knows how much it is worth to us ... when we say “we’ll give you £7m for it”, he’ll “it’s worth £14m!!” And so it is that kind of argument that he knows what its worth and we know what it’s worth and therefore we will be married forever.” (International Trading Manager/Case A)*

The calculative commitment of the British partner in Case A motivated them to reflect on the operational and relationship context which led them to recognize their

own role in the conflict, including their inappropriate organizational expectations, planning and managerial resourcing. As a result, the British changed their management team, removing two British expatriates and transferring a highly skilled senior manager to direct operations and work with the partner's chairman. This new manager signaled renewed commitment to the Taiwanese partner and adopted a more conciliatory decision-making style:

*“What shared control means is that technically you both bring the best of your businesses to the table but you also bring the worst of both businesses as well. And if you can't agree, where do you go? So I have sought to persuade my team that both sides should be prepared to be flexible, concede and look for win-win at all times. Even if you can't find win-win - be prepared to accept lose-win.” (Case A/International Business Development Director)*

This situation was ongoing for Case A. Even the transfer of the new experienced British manager improved co-operation, later operational changes created further disagreements, compromising trust and leading the partners to revisit the buyout option. Again, however, high termination costs prevented termination.

In Cases B, C and D, the shared structure was associated with both calculative and affective commitment. In Case B, the British partner perceived the IJV as being more important for themselves than for their Turkish partner as it was firmly connected to the core of the British parent retailing business but formed only a peripheral part of the diversified Turkish partner's business. Despite this asymmetry, the initial investment of £12.5m and optimistic future returns prognoses meant the British partner felt a high level of calculative commitment. In addition, the complex contractual arrangement of the 50:50 venture took a long time – two years – to

negotiate. This prolonged negotiating period allowed the partners the time to establish a close relationship and affective commitment.

The affective commitment between partners in Case B facilitated open discussions and smoothed the tensions resulting from disagreement over strategy. The British compromised, agreeing to hold expansion and concentrate on existing stores. The compromise, however, did not immediately lead to tangible positive results. The British witnessed a retraction of the Turkish partner effort within IJV property operations while they continued to acquire sites for their domestic business. As partner opportunism became apparent, the British realized their concern for the preservation of a harmonious relationship led them to act too passively:

*“Our thinking at that point was that 50:50 is a very delicate balance. You fall out in a 50:50 and you are in big trouble, ... so you end up being very, very polite and that again can waste a hell a lot of time and the big thing for us is property and we should have been stronger.” (Case B/International Director)*

This experience led the British to negotiate a small joint-project team to find store sites, which improved cooperation with the Turkish partner. Ultimately, however, what encouraged the British partner to work through the difficulties was their committed relationship with the Turkish partner:

*“I mean Turkey has survived everything that can happen to a joint venture: interest rates going from 80% to 2000%, paying too much for a site, having the wrong expat management team and the collapse of the Turkish lira. ... But the people dealing with the business are the people who have always dealt with the business. What glues it together is the personal involvement and the commitment of the people.” (Director of International Trading)*

In Case D, we found affective commitment between managers operating the shared IJV. The British and Japanese general managers jointly managed operations and worked close together. The managers equal management input and responsibility and their commitment to their fostered trust and respect, which gradually morphed into loyalty and attachment between the two. As the General Manager explained:

*“There was strong respect between us and if he really thought strongly about something and I would support him 100% even if parent management maybe didn’t agree and if I thought strongly about something, he would support me as well. It was like an unwritten rule if you like” (Case D/General Manager)*

The British manager further indicated that this commitment enabled them some influence over their respective parent companies. This was especially useful to smooth the tensions on the strategic disagreements. However, the growing asymmetrical levels of calculative commitment and investment into the venture (as noted earlier) allowed the Japanese more bargaining power over the disagreement through provision of capital and managerial resources into the venture.

### *6.3.3 Managerial influencing*

In our 50:50 cases, it was not possible for either partner to have unilateral control and use the higher equity to force particular decisions on the venture. Instead, they had to adopt a more subtle, participatory and conciliatory approach to influence their partner and also be prepared to be influenced themselves. We observed the use of managerial influencing or rational persuasion, consultation and personal appeals in our cases. These subtler approaches allowed the partners to maintain more cordial relationships and facilitated resolution of disagreements.

In Case C, for example, British managers openly admitted the impossibility of applying formal means to achieve favorable positions:

*“We saw the need to have influence, but we didn’t see that being through equity, we saw that through the relationship...Equity control is not going to make a difference.” (Finance Director/Case C)*

Instead, they adopted careful influencing to persuade their partner of divergent sector origins to accept specific aspects of the operating model:

*“We have spent the first two years influencing, persuading, cajoling the partner. The good news is we have a good relationship. We talk about everything. No they don’t always like our decisions and yes they will say they don’t like them but because we respect each other we will sit down and talk and it takes weeks sometime.” (Case C/General Manager)*

*“We don’t have big arguments, we work things through. So from day one it is all about compromise, talking about things, listening.” (Case C/International Marketing Manager)*

The influencing strategy required commitment and investments, the introduction of new staff, socialization, and increased parent level management visits. First, members of the British team were replaced with more experienced managers. Second, both partners replaced several store-level employees and sales managers with staff new to the industry. This aimed to socialize new employees into the company’s vision. Third, the British increased parent-level senior management visits which facilitated communication and further relationship development.

The British company in Case D learned to influence their partner while also being receptive to partner influence. As they realized that attempting to impose their

own way all the time in a 50:50 structure would cause tensions, they sometimes acquiesced to avoid confrontation and legal disputes and to protect the relationship. This openness of the British to being influenced was also indicative of the loyalty and attachment prevailing between them and the Japanese managers:

*“In the midst of disagreement, we realised that having a 50:50 partnership in Japan, we had to listen to what opinions came forward from that and sometimes we imposed our way and sometimes we gave in because there is no point in getting into a legal battle because once you do you may as well close the joint venture and I believe that completely. It has got to be a friendly partnership” (Case D/Senior Manager)*

## **7. Discussion and conclusions**

### *7.1 Discussion*

Our findings linked the shared management IJV structure to the development of post-formation relational conditions which, in turn, help the IJV partners address post-formation challenges. This link between shared management, relational conditions and managing post-formation challenges contains a paradox: while increasing the likelihood of post-formation conflicts, the shared structure simultaneously offers scope for cohesive relationship development.

As identified by IJV scholars (Hambrick et al. 2001; Pearce, 1997), shared management is highly integrative in orientation and involves high task and resource interdependence between partners. This can lead to sustained close inter-partner interaction, extensive information sharing, close co-operation, learning about each other and developing cohesive relationships. Our data suggests this only occurs when partners comply with the mandate of shared management. In this respect, our case

companies shared control and co-managed their IJVs with their partner, and developed close relationships, except case A. These companies developed positive relational conditions – trust and respect, commitment and influencing – that helped manage post-formation IJV challenges.

The findings show how shared management contributes to the development of trust and respect between partners. We also found that trust and respect helped diffuse conflicts and promoted the ability of partners to understand each other's position and point of view.

In addition to providing opportunities for trust development, shared management encouraged commitment in the inter-partner relationships. Building on IJV commitment research (Cullen et al. 2000; Isidor et al. 2015; Kwon, 2008; Voss et al. 2006), our study suggests shared management can increase affective and calculative commitment in the IJV and that both types of commitment play a positive role in addressing post-formation challenges. Some case partners were motivated to resolve post-formation issues and correct their own mistakes (e.g. resourcing errors) as a result of the instrumental worth of continuing the relationship. The fact that both partners provided large portions of equity and would suffer high exit costs provided them with the motivation to resolve conflicts. Furthermore, prolonged and intense interaction between the partners in some cases also resulted in affective commitment.

Equal formal authority, the lack of formal dominance by one partner and the inappropriateness of forceful tactics provides partners with an incentive to employ intensive communication and influencing to resolve disagreements. Supporting the studies of Pearce, (1997), Muthusamy and White, (2006), and Muthusamy et al. (2007), IJV managers in our cases exercised persuasive communication to align

partner opinion to their own preferences even though this influencing could be time consuming.

Our study makes three key contributions. First, our study contributes to the research on shared management IJVs. Decades of IJV control research predominately examined the relationship between IJV management structure and performance, largely comparing shared versus dominant structures (e.g., Beamish, 1984; Ding, 1997; Killing, 1983; Lane & Beamish, 1990; Mjoen & Tallman, 1997; Yan & Gray, 1994). The performance agenda diverted attention away from understanding the evolution and management of shared IJVs. However, in this study, we focused on the post-formation *management* of shared IJVs, specifically on the relationship between shared structure, relational conditions and management of post-formation challenges. Our key finding is that the shared or 50:50 management IJV structure does not always generate paralyzing inter-partner conflicts, as many existing IJV studies contend (e.g., Ding, 1997; Killing, 1983) or lead to changed ownership and termination (Brouthers & Bamossy, 2006), but also can result in particular relational conditions that help partners resolve their conflicts and manage their differences. In this way, our study supports those studies that have promoted a more nuanced and complex understanding of the post-formation effects of IJV control structures (Barden et al. 2005; Child & Yan, 2003; Steensma et al. 2001).

Second, we add to prior research on shared IJVs which have identified, to a degree, some positive co-operative and relational effects of shared IJV structures (Beamish, 1984; Child, 2000; Hebert, 1996; Steensma & Lyles, 2000). Unlike these studies, we have provided more in-depth insights into the interplay between shared structures and relational outcomes. Our findings suggest the central structural dimensions of equal ownership and shared management control positively influence



the development of trust, commitment and intense communication, which in turn, perform a highly constructive role for managing post-formation challenges. Our findings suggest the highly integrative nature of shared IJVs, including high operational interdependence and shared decision-making, encourages partners to work closely together, communicate frequently and intensely and exchange personnel. Although share management can lead to inter-partner conflicts, the equal investment and mutual responsibility provides partners with the motivation and opportunities to learn about each other, to learn how to better implement the control structure, to build trust, and to commit to the venture and partner. Our findings provide new insights into how the relational conditions of shared IJVs facilitate the management of IJVs.

Finally, we provide empirical support to the conceptual arguments that the initial IJV design shapes how IJV partners behave during post-formation stage (Contractor, 2005; Contractor & Reuer, 2014; Hennart & Zeng, 2005). As a result, this study provides an initial response to Contractor (2005) and Hennart and Zeng (2005) who have called for more research linking structure to post-formation partner behaviors.

## *7.2 Limitations and future research*

The study contains a number of limitations. Considering the qualitative nature of this research, generalisations must be done with care. The research is based on a small sample of UK retail multinationals with Asian partners, potentially limiting the implications to a particular sector and national context. Future studies may adopt larger and varied sample sizes to enhance external validity and expand generalisability. Second, we relied on data from one IJV parent only due to access constraints. As each IJV partner can interpret management experiences and events

differently, not interviewing the partners of the British companies may have resulted in omission of different points of view. However, we found strong agreement in the accounts of the multiple informants we did interview within each case study. Third, in our definition of formal structure we relied on the established decision-making power perspective (Killing, 1983), which largely restricted our appreciation of formal structure to two structural elements: equity share and agreed division of managerial responsibility. However, we appreciate how IJV control encompasses a wider set of formal and informal elements or mechanisms. Nevertheless, our findings should serve as a springboard for future research to examine how other management structures shape post-formation managerial actions.

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