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**Working Paper**

## A framework of international joint ventures exit: A resource dependence and learning perspective

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A Framework of International  
Joint Ventures Exit –  
A Resource Dependence and  
Learning Perspective

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## Abstract

Although international joint ventures (IJVs) have been a dominant market entry mode for years, high failure rates have been reported. Hence, an important part of research on IJVs focuses on success in terms of survival or persistence. The literature on IJV survival and exit (i.e., termination), however, has important limitations. Addressing these limitations, I offer an IJV exit framework and corresponding propositions that apply resource dependence and learning theories. The framework illustrates how specific determinants influence the likelihood of an IJV's persistence or termination through liquidation, internalization or sell-off. It extends the uni-directional notion of the current IJV learning theory and illustrates that parental learning does not necessarily lead to an IJV's internalization, whereas absent learning does not inevitably result in an IJV's persistence. Furthermore, this article shows how particular aspects of a firm's culture such as uncertainty avoidance affect the exit of IJVs.

JEL-classifikation: L-21, L-24, L-25

Keywords: International Joint Venture, Termination, Exit, Resource Dependence, Learning

## Zusammenfassung

*"Ein Exit-Framework internationaler Joint Ventures –  
ein Ansatz der Ressourcenabhängigkeit und des Lernens"*

Obwohl Unternehmen häufig internationale Joint Ventures (IJVs) zur Umsetzung von Markteintrittsstrategien nutzen, sind diese Organisationen anfällig für Ineffizienzen und vorzeitige Beendigungen bzw. Exit. Dementsprechend hat sich die bisherige Forschung bemüht, Einflussfaktoren zu identifizieren, die einem unerwarteten IJV Exit entgegenwirken. Jedoch weist die entsprechende IJV Exit Literatur bedeutende Limitationen auf. Um diese Limitationen zu adressieren, entwickle ich auf Basis des Ressourcenabhängigkeitsansatzes und der Lerntheorie ein entsprechendes IJV Exit-Framework sowie dazugehörige Propositionen. Das Framework zeigt, wie bestimmte Determinanten auf die Wahrscheinlichkeit eines IJV Exits durch Liquidierung, Verkauf oder Internalisierung wirken. Es erweitert die unidirektionale Sichtweise der derzeitigen Lerntheorie und verdeutlicht, dass Lernen von IJV Partnern nicht zwangsläufig zur Internalisierung eines IJVs führt und dass ein Ausbleiben von Lernen nicht unbedingt das Fortbestehen eines IJVs bedingt. Darüber hinaus verdeutlicht diese Studie, wie spezifische kulturelle Aspekte von Partner-Unternehmen (z.B. Risikoaversion) die Beendigung von IJVs beeinflussen.

JEL-Klassifikation: L-21, L-24, L-25

Schlagworte: Internationale Joint Venture, Beendigung, Exit, Ressourcenabhängigkeit, Lernen

## 1 Introduction

International joint ventures (IJVs) have been an increasingly important component of firms' international strategies (Beamish and Lupton, 2009; Hambrick, Li, Xin and Tsui, 2001). Nevertheless, IJVs have turned out to be a relatively unstable form of international business operation (e.g., Steensma, Barden, Dhanaraj, Lyles and Tihanyi, 2008), often leading to dissatisfied parent organizations (e.g., Barringer and Harrison, 2000; Li, Xin, Tsui and Hambrick, 1999) and termination rates between 30 to 70 percent over a period of observation (Hennart and Zeng, 2002a).

The success and performance of IJVs, as well as corresponding key success factors, have been researched extensively in numerous quantitative studies and reviews (e.g. Beamish and Lupton, 2009; Nippa, Beechler and Klossek, 2007; Reus and Ritchie, 2004). In particular, a number of researchers have investigated the exit (i.e., termination) of IJVs as a proxy for IJV success or failure. However, the IJV exit literature demonstrates important shortcomings and limitations, leading to unclear findings and difficulties in deriving conclusions (see for a review: Nemeth and Nippa, forthcoming). *First*, many of the IJV exit studies do not analyze *how* firms terminate IJVs and thus neglect the implications for parent-firms. A firm can terminate an IJV using one of the following three methods: (1) the firm buys the stake of the other partners and thus continues the venture's operation alone (i.e., internalization); (2) the venture is liquidated; (3) the firm sells its stakes to an IJV partner or a third party (Hennart and Zeng, 2002a; Reuer, 2000). Consequently, the exit mode 'IJV internalization' implies an increase in the partner's commitment to the venture, whereas the exit mode 'IJV liquidation' and 'sell-off' corresponds to withdrawal from the collaboration (Reuer, 2000; 2002). *Second*, the majority of researchers associate IJV exit with failure and assume that IJV exit is generally *unintended* (e.g., Reuer and Miller, 1997; Yan and Zeng, 1999). On the contrary, IJV exit can also be an intended outcome of the successful completion of a partnership if the partners have achieved their initial or adapted IJV purposes (e.g., Gomes-Casseres, 1987). *Third*, most IJV exit studies investigate rather static exit determinants (e.g., initial equity distribution), while exit research at large neglects more dynamic and flexible exit determinants (e.g. conflict) that come into play after IJV formation (Yan, 1998). *Fourth*, studies that illustrate the influence of a firm's cultural aspects on IJV exit predominantly apply aggregate proxies of cultural distance and thus neglect a more fine-grained consideration of its specific dimensions such as uncertainty avoidance and long-term orientation (cf. Hofstede, 2001). The objective of this paper is to overcome these shortcomings by developing a

theoretical framework as well as propositions that illustrate how dynamic exit determinants influence the likelihood of differing IJV exit modes (e.g., internalization, liquidation) or IJV persistence.<sup>1</sup> The proposed framework relies on the resource dependence (RDT) and learning theory. Previous studies conclude a uni-directional relationship between parental learning and IJV exit in which sufficient know-how acquisition leads to IJV internalization, whereas insufficient parental learning tends to result in IJV continuation (e.g., Steensma et al., 2008). I show that such a uni-directional notion may result in misleading conclusions and thus extend the IJV learning theory through introducing moderating factors that explain an IJV's exit more comprehensively. Furthermore, this article discusses the role of particular dimensions of the parent firm's national culture and their impact on IJV exit.

The remainder of this article is divided into three sections. The first section defines relevant IJVs and provides an overview of the shortcomings of the current research on IJV exit. The second section employs the RDT and learning theory to derive determinants that influence IJV exit or survival. The third and final section develops propositions and an IJV exit framework. This article concludes with a summary of the theoretical contributions and managerial implications of the proposed framework, and a proposal for further research directions.

## **2 Current IJV Exit Research and its Shortcomings**

### **2.1 Definition of IJVs and its objectives**

Joint ventures (JVs) are legally and economically separate organizational entities partially held by parent organizations that collectively contribute resources to pursue strategic objectives (Pfeffer and Nowak, 1976). IJVs are ventures in which the participating partners originate from different countries (Yan, 1998). Firms enter into IJVs to pursue various objectives such as market entry, economies of scale and risk reduction (Barringer and Harrison, 2000; Nguyen and Larimo, 2010). However, researchers frequently underestimate the importance of specifying a parent firm's IJV objectives to derive reliable conclusions (Inkpen, 2000a; Inkpen and Tsang, 2007) and thus confuse several kinds of IJVs whose parent firms have different underlying objectives. The relevance and relative dominance of market

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<sup>1</sup> Persisting IJVs can be classified into 'unstable' (i.e., changes in strategies, core business processes, or key products and markets) and 'stable' business operations (i.e., no changes in strategies etc.; Makino et al., 2007). In fact, so called IJV 'instability' may simply reflect usual adaptations to changing business conditions (Beamish and Lupton, 2009; Yan 1998). Furthermore, despite its 'instability' the IJV still exists as a cooperative organization (Das and Teng, 2000a), thus, I do not differentiate between 'unstable' and 'stable' IJVs within the proposed framework.

entry IJVs for a firm's international expansion strategy is widely acknowledged (Hambrick et al., 2001; Makino, Chan, Isobe and Beamish, 2007), thus, following other studies (e.g., Puck, Holtbrügge and Mohr, 2009; Yan and Gray, 1994), this paper focuses on IJVs in which a foreign partner aims to enter the home market of the local IJV partner. Within such an IJV context, firms combine their complementary resources (Beamish and Lupton, 2009; Murray, Kotabe and Joe, 2005) to pursue business opportunities that otherwise would not be realizable (Mjoen and Tallman, 1997). IJV partners can contribute various tangible and intangible resources to the venture (Yan and Gray, 1994; Chen, Park and Newbury, 2009). However, tacit and firm-specific know-how is the main source of competitive advantage (Chen et al., 2009; Grant and Baden-Fuller, 2004; Lane and Lubatkin, 1998; Schmid and Schurig, 2003; Spender, 1996).<sup>2</sup> In consequence, the primary resource contribution of the foreign partner is technological know-how, whereas the local partner contributes mainly local know-how into the IJV (Barringer and Harrison 2000; Beamish and Lupton, 2009; Inkpen and Beamish, 1997; Ishii and Hennart, 2009; Pfeffer and Nowak, 1976; Steensma and Lyles, 2000). Technological know-how includes "expertise and technology for production management and global support" (Inkpen and Beamish, 1997: 184), whereas local know-how implies "local legitimacy, market knowledge, governmental and industry contacts, and a local labor supply" (Barringer and Harrison, 2000: 384). In this paper, the terms 'resources' and 'know-how' will therefore be treated as synonyms.

The application of the partner's know-how within an IJV context can be differentiated as follows. First, a firm desires to *access* the partner know-how it lacks, but with the purpose of retaining the partner's know-how specialization. Second, learning theory implies that firms operate IJVs to *absorb* the IJV partner's contributed know-how (Grant and Baden-Fuller, 2004; Hennart and Zeng, 2002b; Hennart and Zeng, 2005; Ishii and Hennart, 2009; Mowery, Oxley and Silverman, 1996; Nakamura, Shaver and Yeung, 1996). The IJV is then most likely to become a *learning race*, in which the first IJV partner to acquire the other partner's know-how exits the IJV (Hamel, 1991; Khanna, Gulati and Nohria, 1998). In contrast to the 'organizational learning' approach (e.g., learning how to manage IJVs effectively) the 'learning race' approach implies the acquisition of the IJV partner's know-how without its

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<sup>2</sup> Tacit knowledge is highly personalized and very context specific, and thus is not easily communicable or transferrable (Nonaka, 1994; Spender, 1996). The transfer of tacit knowledge requires intensive interaction (Spender, 1993; Baughn et al., 1997). Hence, IJVs are appropriate means to transfer tacit knowledge since they ensure sufficient interaction between parent firms (Das and Teng, 2000b; Dussauge and Garrette, 1999; Norman, 2002). In contrast, explicit knowledge is codifiable and can be more easily communicated by means of words or figures (Baughn et al., 1997; Nonaka and Takeuchi, 1995).



formal authorization (Hennart and Zeng, 2002b; Ishii and Hennart, 2009). In this regard, IJVs are interorganizational relationships in which participants not only cooperate (i.e., pursue shared purposes) but also compete against each other by pursuing their own objectives (Chen et al., 2009; Van de Ven, 1976). Since parental *learning* becomes very likely in IJVs in which parent firms contribute complementary knowledge (e.g., technology and market know-how; Dussauge, Garrette and Mitchell, 2000) and due to the fact that *learning* is a well-established motivation for firms to form IJVs and other interorganizational relationships (e.g., Barringer and Harrison, 2000; Bleeke and Ernst, 1991; Hamel, 1991; Kale, Singh and Perlmutter, 2000; Khanna et al., 1998; Makhija and Ganesh, 1997; Mowery et al., 1996; Meier, 2011), I focus on IJV's in which firms aim to acquire the other IJV partner's know-how. Although learning is a primary objective, local and foreign parent firms of market entry IJVs naturally aim for financial performance (Osland and Cavusgil, 1996; Sari et al., 2007) such as profitability, growth in sales and market share (Büchel and Thuy, 2001; Nguyen and Larimo, 2010).

## 2.2 Shortcomings in current IJV exit research

While previous research on IJV exit has provided valuable insights for understanding factors that determine the exit of IJVs, it has important shortcomings and limitations (cf. Nemeth and Nippa, forthcoming).

The majority of IJV exit studies subsume the various exit modes (i.e., internalization, liquidation, sell-off) already mentioned in the last section into a 'non-surviving group' (Cui, Calantone and Griffith, 2011; Reuer, 2002). Studies that illustrate *how* an IJV is terminated provide more reliable conclusions and mitigate the chance of misleading implications (Delios and Beamish, 2004; Li, 1995; Ren, Gray and Kim, 2009). For example, the internalization of an IJV after a favorable change in its conditions (Gomes-Casseres, 1987) would reflect an IJV parent's *extension of commitment*. By contrast, the liquidation of an IJV implies the partner's *withdrawing from cooperation* (Reuer, 2002), for instance after unfavorable changes of the initial situation (e.g., rapid change in technology; Hamel, 1991). Furthermore, the determinants influencing IJV exit may vary in view of differing exit modes (Reuer, 2002). The partner's cultural distance, for example, is a frequently analyzed determinant to explain IJV performance (Delios and Beamish, 2004). Generally, culturally distant IJV partners frequently have contrasting management approaches (Park and Ungson, 1997) and are vulnerable to mistaken communication, which influences IJV *liquidation* positively (Makino et al., 2007). By contrast, Puck et al. (2009) analyze IJV *internalization* and argue that

extreme cultural distance makes it difficult for firms to operate a foreign venture by themselves, which influences IJV exit by *internalization* negatively. Indeed, some studies do conduct separate tests for liquidation or internalization, but they do not develop exit mode specific hypotheses and instead propose hypotheses regarding IJV exit in general (Cui et al., 2011; Hennart and Zeng, 2002a) or liquidation in particular (Park and Russo, 1996; Park and Ungson, 1997). To my best knowledge, no study proposes hypotheses that illustrate how IJV exit determinants vary in the light of different exit modes and IJV survival.

Most IJV exit studies analyze the IJV as an autonomous organizational unit and neglect objectives, dependences and interdependencies of and among the parent firms and the IJV (Cui et al., 2011; Koza and Lewin, 1998; Reuer, 2002). As a result, the survival of an IJV is predominantly interpreted as denoting IJV success, while the termination of an IJV is taken as a proxy of failure (Ren et al., 2009). These studies neglect the fact that IJV exit may be an intended outcome after the attainment of the partner's IJV objectives and may thus reflect the successful completion of a partnership (Das and Teng, 2000a; Gomes-Casseres, 1987; Yan, 1998). The widespread neglect of a firm's intention regarding the exit of the IJV "has left a significant gap in the literature" (Makino et al., 2007: 1114) and limits the scope for interpreting findings (Delios and Beamish, 2004). In their recent contributions, Makino and colleagues (2007) as well as Polidoro, Ahuja and Mitchell (2011) considered the parent-firm's exit intention within their empirical analysis. However, these studies are somewhat limited since they do not analyze differing IJV exit modes but rather investigate IJV liquidation exclusively. Studies differentiating IJV exit modes leave more room for (mis-)interpretation when evaluating the success of IJVs based on the underlying exit mode. Park and Ungson (1997), for example, take the internalization of an IJV as a proxy of success and liquidation as a failure, yet this ignores the fact that the internalization of an IJV might be the consequence of ongoing conflicts between the partners (Hennart and Zeng, 2002a) and thus does not reflect success at all. In light of these shortcomings, it is essential to consider the parent's IJV exit intention in future research (Delios and Beamish 2004; Nemeth and Nippa, forthcoming).

While IJV exit determinants that are rather rigid and inflexible over time (e.g., initial equity distribution; cf. Delios and Beamish, 2004) have been frequently studied, more dynamic and flexible exit factors that change after IJV formation (e.g., level of parental conflict; cf. Steensma et al., 2008) have so far been poorly considered (Nemeth and Nippa, forthcoming; Yan, 1998). Hence, although such factors are well-recognized, the majority of IJV exit studies "neglect the role of change that frequently occurs during a partnership's

lifetime” (Cui et al., 2011: 403). This notion is supported by the findings of other researchers reviewing IJV success factor studies at large (Nippa et al., 2007) and IJV instability in particular (Yan, 1998; Yan and Zeng, 1999).

Various studies have investigated the role of IJV partners’ national cultures and their influence on IJV performance at large (Kaufmann and O’Neil, 2007; Ren et al., 2009) and IJV exit in particular, nevertheless, findings are inconsistent so far (Nemeth and Nippa, forthcoming; Pothukuchi, Damanpour, Choi, Chen and Park, 2002; Shenkar, 2001). Researchers have illustrated that cultural difference between the countries of origin of IJV parent firms is a source of mutual misunderstanding, implies divergent policies on business management and consequently leads to parental conflicts (Kaufmann and O’Neil, 2007; Pothukuchi et al., 2002; Reuer, 2002), low IJV performance and high termination rates (e.g., Makino et al., 2007; Ren et al., 2009). In contrast, Park and Ungson (1997) discovered that a high level of cultural distance leads to a low level of IJV termination, whereas other scholars found no correlation between cultural distance and IJV performance in general (e.g., Nippa et al., 2007). Inconsistent findings may—at least partly—result from the inadequate measurement of culture. IJV exit studies, similar to the broader international business literature, have widely applied aggregate proxies of culture and have thus neglected the differentiated consideration of the particular dimensions of culture (e.g., uncertainty avoidance, long-term orientation; Harzing, 2004; Shenkar, 2001) and their specific influence on IJV exit. Hence, studies have either analyzed the influence of cultural distance on IJV exit by comparing IJVs established by parent firms originating from the same country (e.g., U.S.-U.S.) with IJVs from culturally distant countries (e.g., U.S.-Japanese; Harrigan, 1988; Hennart and Zeng, 2002a; Park and Ungson, 1997), or they have quantified cultural distance through the deviation of country specific scores of the respective IJV parent firms (e.g., Barkema, Bell and Pennings, 1996). As an exception, Barkema and Vermeulen (1997) illustrate the influence of particular cultural dimensions on IJV exit, but do not differentiate specific exit modes in their analysis (e.g., liquidation vs. internalization). Since national culture carries certain implications (Harzing, 2004; Hofstede, 2001), such as a firm’s preference for a specific IJV exit mode, and since aggregate proxies of cultural distance may cause misleading findings (Pothukuchi et al., 2002; Shenkar, 2001), the influence of specific cultural dimensions on an IJV’s exit mode need to be discussed.

Considering the aforementioned limitations, a IJV exit framework and corresponding propositions are developed to meet the following requirements: (a) differentiation of the main

IJV exit modes – i.e., internalization and liquidation, (b) enablement of reliable interpretation of IJV success – i.e., intended vs. unintended IJV exit (c) investigation of dynamic exit determinants that may change after IJV formation, and (d) distinction of specific dimensions of a firm's national culture and their impact on IJV exit. Although the proposed framework is applicable to IJVs with more than two parent firms, for reasons of simplicity this paper follows the common practice of assuming that the IJV is operated by two parents, one foreign and one local (e.g. Hambrick et al., 2001; Makhija and Ganesh, 1997; Yan, 1998).

### **3 Deriving IJV Exit Determinants**

Searching for an adequate theoretical foundation requires screening the existing IJV exit literature. Most previous IJV exit studies build their concepts, hypotheses and models explicitly on theories such as transaction cost economics (e.g., Dhanaraj and Beamish, 2004; Park and Ungson, 1997), organizational learning theory (e.g., Barkema et al., 1996; Barkema, Shenkar, Vermeulen and Bell, 1997) and social exchange theory (e.g., Steensma et al., 2008). Following the recommendation of Nemeth and Nippa (forthcoming), I transfer and apply a yet unconsidered theory within the IJV exit literature, that has been used by related research areas such as alliance instability (e.g., Greve, Baum, Mitsuhashi and Rowley, 2010; Inkpen and Beamish, 1997; Seabright, Levinthal and Fichman, 1992), namely the RDT.

RDT is "a primary theoretical perspective to understand joint ventures (JVs) and other interorganizational relationships" (Hillman, Withers and Collins, 2009: 1406; Barringer and Harrison, 2000; Elg, 2000; Goes and Park, 1997). Studies that investigate the relationship between resource dependence and JV emergence provide empirical evidence for the applicability of RDT to explain the formation of JVs (Hillman et al., 2009; Park and Mezias, 2005; Pfeffer and Nowak, 1976), whereas Yan and Gray (1994) applied the RDT as a theoretical fundament to investigate the relationship between bargaining power, management control and IJV performance.

The RDT implies that organizations require resources to survive and need to interact with other organizations that possess those resources; thus, organizations depend on their environment (Goes and Park, 1997; Park and Mezias, 2005; Pfeffer and Salancik, 1978; Van de Ven, 1976). As a result, "firms rely on certain resources owned by others and manage interorganizational relationships to control and minimize such dependence" (Das and Teng, 2000a: 80). Generally, the level of a firm's resource dependence is determined by (1) the discretion over the resource, (2) the importance of the resource, and (3) the concentration of

resource control (Pfeffer and Salancik, 1978: 46-51). The *discretion over the resource* is the capability to determine the application of the resource. The *importance of a resource* is constituted by its criticality for the continuation of the firm's operations and by its relative magnitude relating to the total amount of a firm's resources. The *concentration of resource control* is determined by the extent to which alternatives are available to gain access to the resource. Thus, a firm is highly dependent on another firm if it is in control of highly important resources that are otherwise not readily available (zu Knyphausen-Aufseß, 1997).

Interorganizational relationships are terminated for "the inverse of the reasons for which they were formed" (Inkpen and Beamish, 1997: 183). In consequence, a change of the level of dependence on the IJV partner's resources may result in the decrease of a partner's need for cooperation and lead to the exit of the IJV (Harrigan and Newman, 1990; Van de Ven, 1976; Yan and Gray, 1994). First, the learning theory implies that the *discretion over the partner's resources* may shift following the formation of an IJV due to the learning processes of the IJV partners (Hamel, 1991; Inkpen and Beamish, 1997). If a firm acquires and thus controls the desired know-how of the IJV partner (i.e., outlearning), the dependency on this partner diminishes (Hamel, 1991; Steensma et al., 2008; Yan and Gray, 1994) and might lead to an IJV exit by internalization through the independent partner (Gomes-Casseres, 1987; Puck et al., 2009). Second, the *importance of the partner's resources* might change due to the firm's re-evaluation of the IJV's strategic importance (Yan and Gray, 1994). Consequently, a change in the parent-firm's corporate strategy may result in a decrease in dependence on the IJV partner's resources, thus leading to an IJV exit (e.g., the IJV product is discontinued; Cui et al., 2011). Third, the *concentration of resource control* alters if the situation regarding alternatives to attaining the IJV objectives changes (Cui et al., 2011; Yan and Gray, 1994). An increase in alternatives decreases the dependence on the actual IJV partner (Harrigan and Newman, 1990) and increases the propensity for IJV exit (Cui et al., 2011). Beyond the change of resource dependence, another factor have been highlighted that will determine IJV exit.

As already discussed, the RDT implies that firms require other firms' resources to survive (Pfeffer and Salancik, 1978). Therefore, firms access required resources through IJVs (Das and Teng, 2000a) and pursue specific IJV objectives that contribute to the firm's prosperity and survival (Hoffmann, 2005). The assessment of whether the partner's IJV objectives are achieved is reflected by the *IJV performance* (Beamish and Lupton, 2009; Hill and Hellriegel, 1994). Therefore, unsatisfactory IJV performance increases the propensity for

IJV exit (Nadolska and Barkema, 2007), whereas adequate IJV performance leads to IJV persistence (i.e., survival; Delios and Beamish, 2004). In fact, among other important IJV objectives (e.g., financial performance), the previously discussed parental learning intention – which leads to a shift of the *discretion over the partner's resources* – is a broadly accepted IJV performance measure (Ren et al., 2009). Following other researchers (Yan and Gray, 1994) this paper strictly separates the IJV partner's learning intention as a critical determinant for changes of partner dependence from other IJV performance criteria.

IJVs imply cooperative relationships between firms that stem from different countries and cultures. "Despite different definitions of culture, there is a general consensus among organizational researchers that culture refers to patterns of beliefs and values that are manifested in practices, behaviors, and various artifacts shared by members of an organization or a nation" (Pothukuchi et al., 2002: 244)<sup>3</sup>. There is a widely held notion that the cultural aspects of a firm influence its internationalization strategies (Rothaermel, Kotha and Steensma, 2006) and its willingness to engage in inter-firm cooperation (Harzing, 2004). Consequently, this paper analyses the impact of specific dimensions of a firm's national culture (e.g., uncertainty avoidance, power distance) on an IJV's exit.

In summary, applying the RDT and learning theory and acknowledging cultural aspects within IJV constellations, the following IJV exit determinants have been defined to develop an IJV exit framework: (I) *discretion over the partner's resources* (II) *importance of the partner's resources* (III) *concentration of resource control* (IV) *IJV performance* and (V) *national culture*. Although all these determinants influence the exit of IJVs, they are a response to different issues from the parent-firm's point of view. A change in the *discretion over the partner's resources* (i.e., through learning) indicates whether a parent-firm becomes *capable* of operating the venture alone after acquiring the partner's know-how. Due to the attained independence from the partner's resources, the parent-firm may convert the IJV into a WOS (i.e., influences the likelihood of IJV internalization). By contrast, the development of *the IJV performance, the importance of the partner's resources, and the concentration of resource control* (i.e., availability of alternatives) highlight whether or not a parent firm is *willing* to continue the venture – either as an IJV or as a WOS (i.e., affect the probability of IJV liquidation or internalization). Finally, a parent firm's *national culture* indicates whether or not an IJV partner is *willing* to exit an IJV.

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<sup>3</sup> A firm arises out of its environment and thus its organizational culture will strongly be influenced by the national culture from which it originates (Hennart and Larimo, 1998). Consequently, as Li and colleagues (2001) state, national culture has a more significant impact on a manager's decision making than organizational culture. Consequently, I focus on national culture and do not analyze organizational culture in this study.

## **4 An IJV Exit Framework and Development of Propositions**

### **4.1 Development of Discretion over the Partner's Resources**

Within a learning race between the IJV partners, two principal alternatives regarding the development of discretion over the IJV partner's contributed resources have to be distinguished (Hamel, 1991): (I) one partner gains discretion over the IJV partner's resources (i.e., outlearning), and (II) the discretion over the partner's know-how is sustained because neither IJV partner outlearns the other partner.

*One partner gains discretion over the other partner's resources.* After IJV formation, the IJV partners contribute complementary resources into the IJV in order to ensure the IJV's competitiveness in the local market (Chen et al., 2009; Hamel, 1991; Hamel, Doz and Prahalad, 1989; Steensma and Lyles, 2000). As already discussed, the foreign partner contributes mainly technological know-how, whereas the local partner contributes know-how regarding the local market (e.g., Beamish and Lupton, 2009). To hinder unintended know-how transfer to the IJV partner, the respective parent-firm often installs counter-measures and protects its know-how through formal and informal control mechanisms (Chen et al., 2009; Hamel et al., 1989; Hennart and Zeng, 2005; Kale et al., 2000; Makhija and Ganesh, 1997; Mjoen and Tallman, 1997; Xu and Lu, 2006). Nevertheless, firms tend to fail to design their IJVs appropriately to protect their know-how from unintended leakage to the IJV partner (Hamel et al., 1989; Hennart and Zeng, 2002b). Furthermore, even if agreements are set up between the IJV parent's executives, the actual know-how transfer occurs between the local and foreign IJV employees working together on a daily basis (Hamel et al., 1989). Since intensive interaction between the IJV employees occurs continuously (Lin and Germain, 1998; Reus and Ritchie, 2004), know-how exchange is never entirely controllable (Das and Teng, 1998). Consequently, valuable partner know-how is to some degree protectable within an IJV, but interaction between IJV employees nevertheless leads to learning between the IJV partners (Goes and Park, 1991; Kale et al., 2000).

The learning conditions of local and foreign IJV employees frequently differ and thus lead to asymmetric parental learning. First, the capacity to absorb knowledge is basically determined through the level of existing know-how; hence, persons with a more related knowledge base can learn new competencies quicker compared to persons with a divergent know-how base (Baughn, Denekamp and Stevens, 1997; Cohen and Levinthal, 1990; Lane

and Lubatkin, 1998). Second, employees with a remarkably intent to learn are more willing to acquire know-how than employees with a low learning intent (Hamel, 1991; Makhija and Ganesh, 1997). Third, parent firm's contributed complementary know-how frequently differs in terms of its transparency and according learnability. For example, technological knowledge implies a lower level of transparency than market know-how and thus requires more effort and time to be acquired (Blodgett, 1991; Hamel, 1991; Inkpen, 2000b). If a firm acquires valuable partner know-how faster than the IJV partner (i.e., due to differing level of absorptive capacity, learning intent and/or know-how transparency), the dependency on the IJV partner declines, which in turn strengthens the relative bargaining power of the firm (Makino and Beamish, 1998; Meier, 2011; Steensma et al., 2008). The bargaining power again determines the level of control a partner can execute over the IJV (Chen et al., 2009; Lu and Hebert, 2005; Mjoen and Tallman, 1997) and its contributed resources (Geringer and Hebert, 1989; Makhija and Ganesh, 1997). Thus, if a firm acquires valuable know-how more promptly than the IJV partner, the firm's strengthened bargaining power leads to an increase in its IJV control so that the other partner's ability to monitor and protect its contributed resources will diminish (Makhija and Ganesh, 1997; Mjoen and Tallman, 1997). Consequently, differing learning conditions of firms lead to extensive know-how acquisition of the advantaged IJV partner and result in the elimination of its dependence on the other partner (Beamish and Lupton, 2009; Inkpen and Beamish, 1997; Lu and Hebert, 2005; Makhija and Ganesh, 1997). As a result, the need for cooperation disappears and the internalization of the IJV by the independent partner becomes likely (Gomes-Casseres, 1987; Makino and Beamish, 1998; Puck et al., 2009; Steensma et al., 2008). The state in which one firm reaches independence from the IJV partner's resources will be called 'sufficient know-how acquisition'.

Once an IJV partner becomes independent, it has several incentives for internalizing the IJV instead of (a) continuing the IJV operation and (b) liquidating or selling the IJV and establishing a new WOS in parallel.

Instead of continuing the IJV operation, a firm seeks to internalize an IJV as soon as possible to minimize the risk that the other partner will behave opportunistically. Furthermore, the independent partner "will exercise its option to acquire the joint venture before [the other] partner accesses the capabilities it lacks and the value of the joint venture becomes equal for both partners" (Dussauge et al., 2000: 105).

Firms have three incentives to internalize the IJV and avoid its liquidation or sell-off by



concurrently forming a new WOS. First, the establishment of a new 'well-performing' WOS in parallel to the IJV is expensive and time consuming – especially within an international context (Hennart, Röhl and Zietlow, 1999). Thus, the internalization of a performing IJV may be a more efficient alternative. Second, the internalizing firm can immediately apply the acquired know-how by means of the IJV and gain profits thereof continuously (Hennart et al., 1999; Ishii and Hennart, 2009). Third, by internalizing the IJV instead of selling to the partner, a firm prevents direct competition with the IJV within the IJV's operating market (Hennart et al., 1999; Ishii and Hennart, 2009).

*Discretion over the partner's resources sustains.* In the event of the absent acquisition of the partner's know-how, the discretion over the partner resources sustains and influences the likelihood of IJV survival positively (Hennart and Zeng, 2002b; Makhija and Ganesh, 1997; Nakamura et al., 1996; Steensma and Lyles, 2000). Two alternatives lead to a sustaining discretion over the partner's resources: (a) similar learning conditions of parent firms (b) contribution of additional resources by the disadvantaged partner.

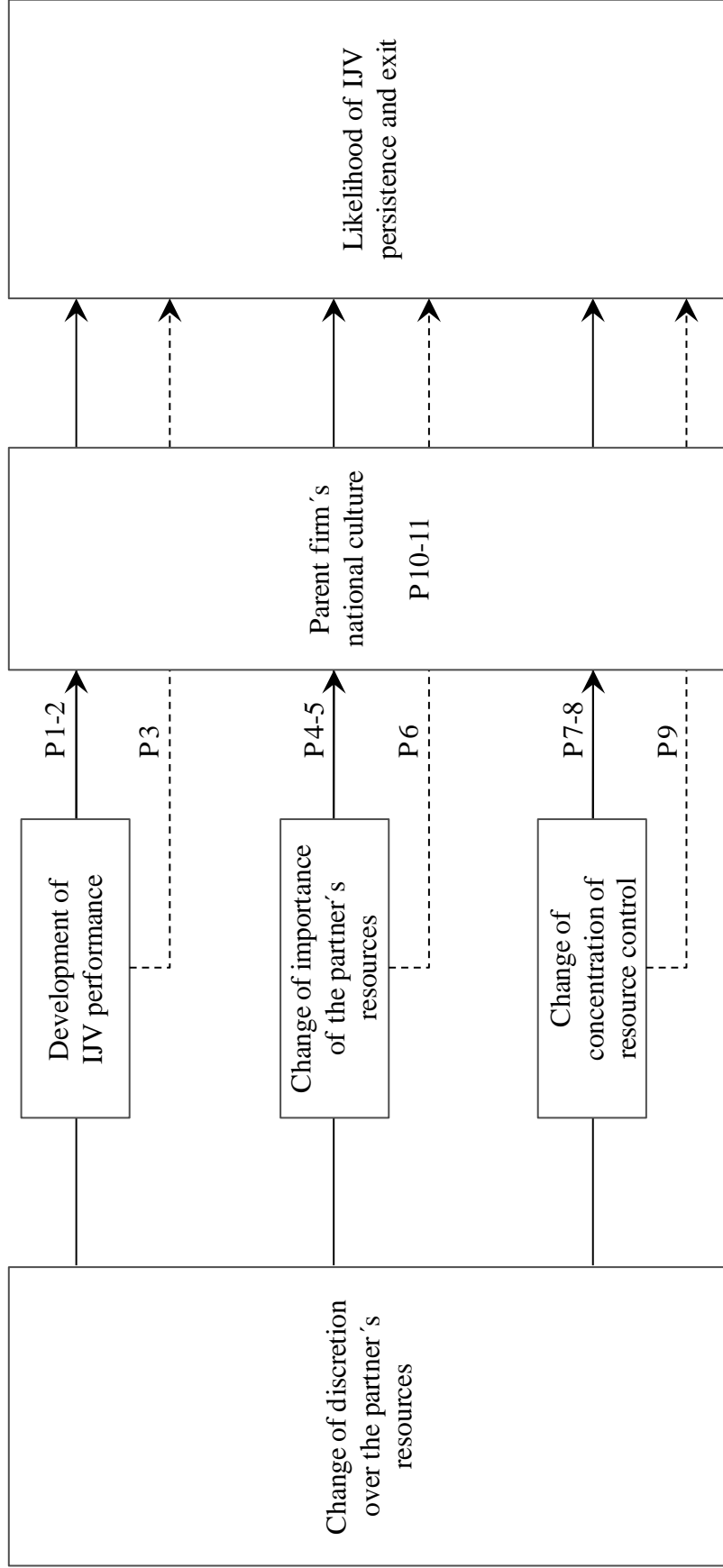
Similar learning conditions for the IJV partners (i.e., similar level of absorptive capacity, learning intent and know-how transparency) lead to balanced parental learning within an IJV context (Hamel, 1991). Consequently, the former level of bargaining power between the parent-firms sustains and leads to a constant level of IJV control. Even if parental learning occurs, at least to some degree, the retained level of control enables the firms to protect valuable know-how from unintended leakage and thus hinders the attainment of an IJV partner's full independence (Inkpen and Tsang, 2007; Mjoen and Tallman, 1997).

Second, the firm that experiences disadvantaged learning conditions within a 'learning race' gradually contributes additional desirable resources into the IJV (Hamel, 1991; Yan 1998) since this secures a constant level of bargaining power and IJV control between the parent-firms (Yan and Gray, 1994). Consequently, the level of partner-dependence remains unchanged. The state in which the IJV parent-firms sustain balanced dependence on each other will be called 'insufficient know-how acquisition'.

As discussed, previous studies have concluded that partner independence attained through know-how acquisition leads to IJV exit by internalization (e.g., Steensma et al., 2008), whereas absent 'outlearning' of IJV partners influences IJV survival positively (e.g., Steensma and Lyles, 2000). Analyzing such uni-directional relationships between exit determinants and IJV exit may lead to misleading results; relevant moderating factors such as

the performance of the IJV should therefore also be analyzed (Müller, 2006). Moderating factors influence the relationship between the dependent and the independent variable (Baron and Kenny, 1986; Müller, 2006). For example, the attainment of partner independence through sufficient know-how acquisition (i.e., independent variable) does unlikely lead to an IJV's internalization (i.e., dependent variable) if a firm is dissatisfied with the performance of the IJV (i.e., moderating variable), since the combination of the complementary partner resources within the IJV is less efficient than expected (Deeds and Hill, 1996). Consequently, this paper discusses additional moderating factors of IJV exit in the next section and then develops propositions and an IJV exit framework (see Figure 1).

**Figure 1: IJV exit framework**



—> Level of parental know-how acquisition influences IJV exit or survival

- - -> IJV exit occurs regardless of the level of parental know-how acquisition

## 4.2 The Moderating Effect of IJV Performance

Firms pursue specific strategic objectives by means of IJVs (Baek, Min and Ryu, 2009; Park and Russo, 1996; Pfeffer and Nowak, 1976; Yan, 1998). The level of attainment of the firm's IJV objectives is measured by the performance of the IJV (Beamish and Lupton, 2009; Nguyen and Larimo, 2010; Sari, Pervez and Luchien, 2007; Schmid and Kretschmer, 2010). IJV objectives vary between the participating firms (Reus and Ritchie, 2004; Yan and Gray, 1994) so that parent firms may evaluate their IJV differently (Harrigan and Newman, 1990). Hence, it is difficult to find consistent performance criteria which reflect the attainment of both parents' IJV goals (Hill and Hellriegel, 1994). For example, although the foreign and local parent firm of a market entry IJV aim for financial performance (e.g., Osland and Cavusgil, 1996), firms tend to weight the relevance of specific performance criteria differently (Büchel & Thuy, 2001; Yan and Gray, 1994). Hence, following the predominant approach within the IJV literature, I consider IJV performance as a subjective measure of the respective partner's satisfaction with the IJV, as opposed to using objective measures like profitability (Ren et al., 2009).

Principally, satisfactory IJV performance leads to IJV survival, whereas unsatisfactory IJV performance increases the likelihood of IJV termination (Beamish and Lupton, 2009; Cui et al., 2011; Delios and Beamish, 2004; Nadolska and Barkema, 2007), due to the inability to achieve a parent's IJV objectives (Yan, 1998). However, the persistence of high performing IJVs relies additionally on the development of discretion over the partner's resources. Generally, firms desire to internalize high-performing IJVs in order to continue the venture as a WOS (Ren et al., 2009: 808), but this scenario might only be feasible if the internalizing partner acquires sufficient know-how from the other partner. Thus, the following propositions can be made:

Proposition 1a: Sufficient know-how acquisition increases the likelihood of IJV *internalization* in the event of satisfactory IJV performance from the perspective of the internalizing firm.

Proposition 1b: Insufficient know-how acquisition increases the likelihood of IJV *survival* in the case of satisfactory IJV performance from the perspective of both parent firms.

Since IJV performance is the consequence of the "strategies implemented by managers and employees" (Beamish and Lupton, 2009: 77), it is essential to differentiate between the

various strategic issues for insufficient IJV performance. Taking the view of a parent firm, poor IJV performance may result from a high level of strategic conflicts with the IJV partner (Das and Teng, 2000b; Lin and Germain, 1998) in terms of differing opinions regarding the IJV's operation and development (Luo, 2002). In the case of high levels of conflict, the internalization of the IJV could be an alternative exit mode to avoid strategic disagreement with the IJV partner (Hennart and Zeng, 2002a) and to achieve the firm's strategic objectives in the future. However, insufficient know-how acquisition hinders the internalization of the IJV and leads to IJV liquidation or sell-off in the event of unsatisfactory IJV performance (Kogut, 1991). Thus:

Proposition 2a: Sufficient know-how acquisition increases the likelihood of IJV *internalization* in the case of unsatisfactory IJV performance due to a high level of parental conflict from the perspective of the internalizing firm.

Proposition 2b: Insufficient know-how acquisition increases the likelihood of IJV *liquidation* or *sell-off* in the case of unsatisfactory IJV performance due to a high level of parental conflict from the perspective of the terminating firm.

By contrast, unsatisfactory IJV performance may emerge despite a low level of parental conflict, for instance if market conditions develop unfavorably (e.g., demand is lower than expected; Sari et al., 2007), or if the complementary partner resources are less compatible than expected (Deeds and Hill, 1996). In other words, from the partner's point of view, the IJV operation itself is the source of poor IJV performance, but not the inefficient 'teamwork' caused by parental conflict (Hennart et al., 1999). Generally, firms evaluate IJV performance by considering the *current* and anticipated *future* performance (Al-Khalifa and Peterson, 2004). If a firm considers the current IJV performance to be unsatisfactory and does not anticipate adequate performance in the future, the liquidation or sell-off of the IJV may be a potential exit mode for the simple reason that even the sole operation of the venture would not change the performance situation. Based on this rationale one can put forward:

Proposition 3: Unsatisfactory current and future IJV performance despite a low level of parental conflict from the perspective of a parent firm increases the likelihood of IJV *liquidation* or *sell-off* regardless of the extent of know-how acquisition.

### 4.3 The Moderating Effect of the Importance of the Partner's Resources

The level of partner dependence can, as already discussed, be influenced *within* the IJV context through changes in the *discretion over the partner's resources*. Alternatively, the partner's dependence can be influenced by changes in conditions *outside* the IJV context (Hamel, 1991). Thus, a firm's dependence on an IJV partner might change if the importance of the partner's resources alters from the firm's point of view (Yan and Gray, 1994).

Generally, an IJV is seen by a firm as being important if it contributes to its corporate strategy (Isobe, Makino and Montgomery, 2000; Tsang, 2002) and thus contributes to the firm's prosperity and survival (Hoffmann, 2005). The modification of a firm's corporate strategy, for example, may lead to decreased importance of the IJV partner's resources (Mata and Portugal, 2000). As a result, the firm's dependence on the IJV partner diminishes and causes the liquidation of the IJV (e.g., the IJV product is discontinued; Cui et al., 2011). Furthermore, the importance of the IJV may change due to personnel modification of the firm's executive-team and the related change in the new manager's willingness to commit to the former venture (Chowdhury, 1992; Duhaime and Grant, 1984). On the other hand, if the strategic importance remains or even increases, the partner's interest in operating the venture persists and enhances the propensity for IJV internalization (Nguyen and Larimo, 2009) or, according to the extent of know-how acquisition, ensures that the survival of the IJV will be more likely. This leads to the following three propositions:

Proposition 4: Sufficient know-how acquisition increases the likelihood of IJV *internalization* in the case of unchanged strategic IJV importance from the perspective of the internalizing firm.

Proposition 5: Insufficient know-how acquisition increases the likelihood of IJV *survival* in the case of unchanged strategic IJV importance from the perspective of both parent firms.

Proposition 6: A decrease in the strategic IJV importance from the perspective of a parent firm increases the likelihood of IJV *liquidation* or *sell-off* regardless of the extent of know-how acquisition.

### 4.4 The Moderating Effect of the Concentration of Resource Control

The concentration of resource control is another factor that influences the dependence on the IJV partner's resources *outside* the IJV context (i.e., beside the importance of the partner's

resources). The concentration of resource control alters if the situation regarding alternatives for attaining IJV objectives changes (Cui et al., 2011; Yan and Gray, 1994). For example, the availability of alternative IJV partners enables firms to choose the best option to achieve its objectives (Park and Mezias, 2005; Steensma and Lyles, 2000). Thus, an increase in potential IJV partners that contribute similar resources and support the achievement of similar objectives decrease a firm's dependence on the actual IJV partner (Elg, 2000; Harrigan and Newman, 1990). As a consequence, a rise in the number of opportunities to switch IJV partners increases the propensity for IJV liquidation (Cui et al., 2011).

The availability of other business channels that contribute to similar objectives (e.g., local export channels for the foreign partner) might be an adequate alternative for parent-firms (Yan and Gray, 1994), and growth in the number of alternative business channels therefore also increases the likelihood of IJV exit. By contrast, the partner's willingness to continue the venture's operation remains if the situation regarding the alternatives is unchanged or develops unfavorably (i.e., fewer alternatives are available). Consequently, according to the extent of a firm's know-how acquisition, the propensity for IJV internalization may rise or the survival of the IJV may be more likely. This gives rise to:

Proposition 7: Sufficient know-how acquisition by an IJV partner increases the likelihood of IJV *internalization* in the event of unchanged availability of alternatives from the perspective of the internalizing firm.

Proposition 8: Insufficient know-how acquisition increases the likelihood of IJV *survival* in the event of unchanged availability of alternatives from the perspective of both parent firms.

Proposition 9: An increase in the availability of alternatives from the view of a parent firm increases the likelihood of IJV *liquidation* or *sell-off* regardless of the extent of know-how acquisition.

#### **4.5 The Moderating Effect of a Firm's Cultural Background**

An IJV partners' national culture determines its actions and values (Hofstede, 2001; Kaufmann and O'Neil, 2007; Ren et al., 2009), such as preference for a specific IJV exit mode (Reuer, 2002). Previous studies applied predominantly aggregate proxies of culture and did not consider specific dimensions of culture. Such approaches created the possibility of misleading conclusions (Harzing, 2004; Pothukuchi et al., 2002) and suggest one reason for

the inconsistent findings in international business research (Shenkar, 2001). The work of Hofstede (2001), which is one of the most cited and acknowledged studies investigating national characteristics (Erramilli, 1996; Kaufmann and O'Neil, 2007), revealed that national culture differs along five dimensions, namely 1) uncertainty avoidance, 2) long-term orientation, 3) power distance, 4) individualism, and 5) masculinity. In the following section, I discuss the influence of each dimension on an IJV's exit mode; however, in contrast to previous studies, I do not illustrate the influence of the *cultural distance* between an IJV's parent firms on parental conflicts in respect of an IJV's termination (e.g., Barkema et al., 1996; Barkema and Vermeulen, 1997; Park and Ungson, 1997; Hennart and Zeng, 2002a), but the impact of what Hennart and Larimo (1998: 517) call "National Character" on IJVexit. In other words, I illustrate how cultural values and patterns affect a parent firm's decision to terminate an IJV regardless of whether the IJV partner stems from a similar or a very different culture.

The national culture of firms especially determines a firm's readiness to operate ventures through *inter-firm partnerships* or *going it alone* approaches. Hence, various studies have investigated whether firms enter into foreign markets by WOS, IJVs or other partnerships depending on their national culture (see for a review Harzing, 2004). Similarly, the national culture influences a parent firm's willingness to continue an existing IJV in cooperation with an IJV partner –for instance– if it becomes *capable* of running the venture alone after sufficient know-how acquisition (i.e., going it alone through internalization). I do not question the learning race notion, knowledge acquisition and subsequent IJV internalization objectives of parent firms in the following discussion, but I do illustrate that specific cultures are more willing than others to internalize IJVs or are more rapid in their internalization decisions. The *liquidation* or *sell-off* of an IJV because of an increase in alternatives is also influenced by a firm's national culture since this will again determine the venture's continuation – either as another inter-firm partnership through an alternative IJV partner or as a going it alone approach by means of accrued business channels (e.g., new export options for foreign parent firms). In contrast, an IJV's *liquidation* or *sell-off* because of unsatisfactory performance or because of decreased importance will be less influenced by cultural aspects since such circumstances determine the entire termination of the former business, either because a sole operation of the venture is not feasible (insufficient know-how acquisition) or because a venture's persistence is not desired as a result of unsatisfactory performance. In these cases, the continuation of a venture – either as an inter-firm partnership or going it alone approach –



does not come into question (see Table 1).

The following section reveals that two categories of cultural dimensions influence the exit of IJVs. First, the level of a firm's uncertainty avoidance and long-term orientation will determine whether or not a parent firm tends to continue the venture with the *existing IJV partner*. Second, the extent of a firm's power distance, individualism and masculinity determine whether parent firms prefer *inter-firm partnerships generally*, whether with the existing IJV partner or with another.

**Table 1:** Relevance of a firm's national culture on IJV exit

	Proposition	Culture relevant?	Comments
1a	Sufficient know-how acquisition increases the likelihood of IJV <i>internalization</i> in the event of satisfactory IJV performance from the perspective of the internalizing firm.	✓	Concerns an IJV's internalization (i.e., inter-firm partnership or going it alone?) Thus, culture plays a role.
2a	Sufficient know-how acquisition increases the likelihood of IJV <i>internalization</i> in the case of unsatisfactory IJV performance due to a high level of parental conflict from the perspective of the internalizing firm.	✓	Concerns an IJV's internalization (i.e., inter-firm partnership or going it alone?) Thus, culture plays a role.
2b	Insufficient know-how acquisition increases the likelihood of IJV <i>liquidation</i> or <i>sell-off</i> in the case of unsatisfactory IJV performance due to a high level of parental conflict from the perspective of the terminating firm.	✗	Concerns an IJV's entire liquidation/ sell-off: • sole venture operation not feasible: insufficient learning • IJV continuation not desired: unsatisfactory performance
3	Unsatisfactory current and future IJV performance despite a low level of parental conflict from the perspective of a parent firm increases the likelihood of IJV <i>liquidation</i> or <i>sell-off</i> regardless of the extent of know-how acquisition.	✗	Concerns an IJV's entire liquidation/ sell-off: • venture continuation not desired even if sole operation feasible: unsatisfactory performance
4	Sufficient know-how acquisition increases the likelihood of IJV <i>internalization</i> in the case of unchanged strategic IJV importance from the perspective of the internalizing firm.	✓	Concerns an IJV's internalization (i.e., inter-firm partnership or going it alone?) Thus, culture plays a role.
6	A decrease in the strategic IJV importance from the perspective of a parent firm increases the likelihood of IJV <i>liquidation</i> or <i>sell-off</i> regardless of the extent of know-how acquisition.	✗	Concerns an IJV's entire liquidation/ sell-off: • venture continuation not desired even if sole operation feasible: unsatisfactory performance
7	Sufficient know-how acquisition by an IJV partner increases the likelihood of IJV <i>internalization</i> in the event of unchanged availability of alternatives from the perspective of the internalizing firm.	✓	Concerns an IJV's internalization (i.e., inter-firm partnership or going it alone?) Thus, culture plays a role.
9	An increase in the availability of alternatives from the view of a parent firm increases the likelihood of IJV <i>liquidation</i> or <i>sell-off</i> regardless of the extent of know-how acquisition.	✓	Concerns an IJV's entire liquidation/ sell-off to take advantage of other options that ensure the continuation of the business – either as an inter-firm partnership (e.g., alternative IJV partner) or going it alone approach (e.g., alternative business channel). Thus, culture plays a role.

Notes: The aim is to clarify the influence of a firm's national culture on IJV exit, thus, propositions that discuss IJV survival are not included in this table

*Uncertainty Avoidance and Long-term Orientation.* Societies that are characterized by high uncertainty avoidance –in contrast to organizations with low uncertainty avoidance– feel uncomfortable in situations of change and uncertainty and are less willing to take risks (Erramilli, 1996; Hofstede, 2001; Rothaermel, 2006). In an IJV context, as previously discussed, firms can acquire the knowledge of the IJV partner over time and thus can reduce the initial resource dependence and according uncertainties regarding the subsequent application of this "new" know-how. However, firms may evaluate the obtained *capability* to run the venture as a sole enterprise according to their cultural background. For instance, market uncertainties such as political, social and legal risks (Puck et al., 2009) and technological uncertainties such as the unpredictable development of technologies (Steensma, Marino, Weaver and Dickson, 2000) may be perceived as being higher by parent firms that come from cultures with high uncertainty avoidance than they would by firms with low uncertainty avoidance, even if complementary market or technological know-how has been sufficiently acquired by means of the IJV. Similarly, firms with high uncertainty avoidance are more reluctant to take advantage of an increase in the availability of alternatives (e.g., alternative export channel or IJV partner) since such actions imply significant changes and according uncertainties. Consequently, foreign firms that perceive significant uncertainties through cultural distance of host countries, for example, are likely to "feel the need for a joint venture partner who can make sense of a strange and threateningly different environment" (Hennart and Larimo, 1998: 534) and tend to continue existing partnerships to avoid uncertainties that could emerge through the sole operation of the venture or the alternative opportunities of business operation. In contrast, firms with low uncertainty avoidance are more willing to take risks (Hofstede, 2001) and would rather internalize an IJV or take advantage of other alternative options to achieve the IJV objectives (e.g. other IJV partner).

Cultures that imply a high level of long-term orientation seek long-lasting partnerships in contrast to organizations with low long-term orientation (Barkema and Vermeulen, 1997; Hofstede, 2001, Larimo and Nguyen, 2010) and invest more effort in creating long-term relationships (Li, Lam and Qian, 2001). Hence, firms with high long-term orientation persist with existing IJVs even in the case of sufficient know-how acquisition and in spite of a situation in which the available alternatives increase. In contrast, firms with low long-term orientation are more willing to terminate existing partnerships to continue the venture alone and are more willing to switch to an alternative to operate the venture (e.g., an other IJV partner). Consequently, researchers discovered that IJVs with Japanese parent firms last

longer than IJVs between U.S. firms (Park and Ungson, 1997), since the Japanese culture implies a high level of long-term orientation (Hofstede and Bond, 1988). Therefore I propose:

Proposition 10: Firms with low uncertainty avoidance and low long-term orientation –rather than firms with high uncertainty avoidance and high long-term orientation– are willing to: a) *internalize* IJVs and b) *liquidate* or *sell-off* IJVs if the availability of alternatives increases.

*Power Distance, Individualism vs. Collectivism, Masculinity vs. Femininity.* Societies with high power distance accept inequalities in the distribution of power within an organization, leading to a concentration of power. In contrast, cultures with low power distance distribute power more equally within an organization (Hofstede, 2001; Kaufmann and O'Neil, 2007; Rothaermel et al., 2006). Managers in firms that stem from high power distance cultures make decisions in an autocratically and paternalistically manner, whereas "both authority and decisionmaking responsibility are more decentralized" in low power distance countries, so that "[m]anagers are more likely to make decisions after consulting subordinates" (Erramilli, 1996: 232; Dash, Bruning and Guin, 2007). Consequently, firms from high power distance societies are prefer sole ownership of venture, since they are "less willing to share decision-making with others" (Hennart and Larimo, 1998: 520) and more prone to mistrust IJV partners (Shane, 1993).

In societies that value individualism, persons are loosely related and individual achievements are highly acknowledged, whereas in collectivistic cultures, people are strongly related and the common good is preferred over the interests of the individual (Dash et al., 2007; Hofstede, 2001; Rothaermel, 1996). "Members of individualistic societies desire independence from any sort of group affiliation", whereas members of collective cultures prefer relationship building and group ties (Steensma et al., 2000: 957; Dash et al., 2007; Triandis, 1993). In individualistic societies, emotional relationships are somewhat rare and the accomplishment of one's own goals are more important, in contrast to collectivistic communities (Hennart and Larimo, 1998; Rothaermel, 2006). Consequently, firms that stem from individualistic cultures prefer sole venture operations to avoid making the concessions to IJV partners that are required in any cooperative enterprise.

Masculine cultures favor values such as "competitiveness, assertiveness, and exercise of power", whereas in feminine cultures "cooperation, humility, and harmony are guiding cultural principles" (Rothaermel, 1996: 63). Feminine societies endorse good relationships

between people (Dash et al., 2007), perceive cooperation as a "win-win" situation and tend to resolve conflict by means of compromise and discussion (Hofstede, 2001). In contrast, people from masculine cultures favor interpersonal competition, are less willing to cooperate with others and prefer to be on their own (Steensma et al., 2000).

In conclusion, power distance, individualism and masculinity determine a firm's preference for cooperation in general, regardless of whether this is with the existing IJV partner or with another. Therefore, these cultural dimensions impact a firm's willingness to internalize the IJV and continue the venture's operation alone. Furthermore, they influence the liquidation of an IJV if alternative opportunities increase, but only if alternative business channels allow a more autonomous operation of the business (e.g., additional local export channels for the foreign partner). The willingness to switch to an alternative IJV partner, for example, is not influenced by these cultural dimensions, since this would not alter the situation of an inter-firm partnership per se. This leads to the following proposition:

Proposition 11: Firms with high power distance, individualistic and masculine cultures – rather than firms with low power distance, collectivistic and feminine cultures– are willing to: a) *internalize* IJVs and b) *liquidate* or *sell-off* IJVs if alternative opportunities that ensure a more autonomous business operation increase.

## 5 Discussion and Conclusions

### 5.1 Theoretical Contributions

Based on the identified limitations of the current IJV exit research, this paper proposes an IJV exit framework by applying the RDT and learning theory and by taking account of a firm's national culture. The article illustrates how dynamic exit determinants influence the likelihood of differing IJV exit modes (e.g., internalization, liquidation) or IJV persistence and shows how changes to the *discretion over the partner's resources* lead to the partner's 'capability' to operate the venture solely. Furthermore, it clarifies whether the IJV partners are 'willing' to continue operations due to the development of *IJV performance*, the *importance of the partner's resources* and the *concentration of resource control*. It then demonstrates how specific cultural dimensions influence a firm's 'willingness' to terminate an IJV.

Previous scholars who have investigated parental learning in IJVs suggest that sufficient know-how acquisition leads to IJV internalization, whereas absent learning leads to IJV

persistence (e.g., Gomes-Casseres, 1987; Steensma et al., 2008). I show that such simple and uni-directional relationships between parental learning and IJV exit do not adequately explain an IJV's exit or persistence in most cases. The parent-firm's perceived IJV performance, IJV importance and situation regarding alternatives are crucial determinants that influence the likelihood of internalization besides sufficient learning. Furthermore, a firm's inability to outlearn the IJV partner does not necessarily lead to IJV survival. As I show, a change in a firm's corporate strategy, for example, may lead to IJV exit via liquidation despite insufficient know-how acquisition. Nevertheless, as suggested in Propositions three, six and nine, IJV exit can occur regardless of the partner's level of know-how acquisition, which implies that direct relationships between an exit determinant and IJV termination are still relevant in some cases.

This article distinguishes specific IJV exit modes within its proposed IJV exit framework (i.e., internalization, liquidation and sell-off), which have so far been widely neglected by scholars investigating the exit of IJVs (Nemeth and Nippa, forthcoming). Consequently, in combination with defined IJV purposes (i.e., IJVs as a means of market entry, learning race), a more reliable assessment of IJV exit with respect to the differentiation between *intended* and *unintended* IJV exit has been ensured (see Table 2). The majority of earlier IJV exit articles construed IJV termination as evidence of failure (Cui et al., 2011). Alternatively, they concluded that IJV internalization implied an intended IJV exit, whereas IJV liquidation or sell-off implied an unintended IJV exit (e.g. Park and Ungson 1997). In part, I agree with the previous notion and show that IJV internalization due to sufficient know-how acquisition can reflect an intended IJV exit from the internalizing parent's view, for example, in the case of satisfactory IJV performance. However, it can also imply a rather neutral outcome if, for example, an IJV's internalization is the result of ongoing parental conflict. Indeed, a high level of parental conflict and a subsequent IJV termination rather suggest a failure to cooperate. Nevertheless, the internalizing firm manages to achieve a very important IJV objective, namely to acquire sufficient know-how that such an IJV exit may be assessed as a neutral outcome from the view of the internalizing parent firm. Similarly, the liquidation of an IJV due to strategic changes, for example, implies a neutral IJV exit from the view of the terminating parent firm rather than failure per se, as suggested by other scholars, since such an exit is not determined by the IJV's performance but by superior corporate decisions (Cui et al., 2011).

**Table 2:** Assessment of IJV exit

Proposition		Assessment of IJV Exit from the view of terminating parent firm
1a	Sufficient know-how acquisition increases the likelihood of IJV <i>internalization</i> in the event of satisfactory IJV performance from the perspective of the internalizing firm.	<ul style="list-style-type: none"> <li>• Sufficient know-how acquisition accomplished</li> <li>• Majority of IJV objectives achieved</li> </ul> <b>+</b>
2a	Sufficient know-how acquisition increases the likelihood of IJV <i>internalization</i> in the case of unsatisfactory IJV performance due to a high level of parental conflict from the perspective of the internalizing firm.	<ul style="list-style-type: none"> <li>• Sufficient know-how acquisition accomplished</li> <li>• IJV objectives widely not achieved due to parental conflicts</li> </ul> <b>0</b>
2b	Insufficient know-how acquisition increases the likelihood of IJV <i>liquidation</i> or <i>sell-off</i> in the case of unsatisfactory IJV performance due to a high level of parental conflict from the perspective of the terminating firm.	<ul style="list-style-type: none"> <li>• Insufficient know-how acquisition</li> <li>• IJV objectives widely not achieved due to parental conflicts</li> </ul> <b>—</b>
3	Unsatisfactory current and future IJV performance despite a low level of parental conflict from the perspective of a parent firm increases the likelihood of IJV <i>liquidation</i> or <i>sell-off</i> regardless of the extent of know-how acquisition.	<ul style="list-style-type: none"> <li>• IJV objectives widely not achieved; IJV operation itself but not inefficient teamwork/ conflict is source of poor performance</li> </ul> <b>—</b>
4	Sufficient know-how acquisition increases the likelihood of IJV <i>internalization</i> in the case of unchanged strategic IJV importance from the perspective of the internalizing firm.	<ul style="list-style-type: none"> <li>• Sufficient know-how acquisition accomplished</li> <li>• IJV contributes to the firm's corporate strategy, prosperity and survival</li> </ul> <b>+</b>
6	A decrease in the strategic IJV importance from the perspective of a parent firm increases the likelihood of IJV <i>liquidation</i> or <i>sell-off</i> regardless of the extent of know-how acquisition.	<ul style="list-style-type: none"> <li>• IJV termination through changes of corporate strategy or new manager's perception can not be held against the IJV itself</li> </ul> <b>0</b>
7	Sufficient know-how acquisition by an IJV partner increases the likelihood of IJV <i>internalization</i> in the event of unchanged availability of alternatives from the perspective of the internalizing firm.	<ul style="list-style-type: none"> <li>• Sufficient know-how acquisition accomplished</li> <li>• Continuation of venture is the best option since no better alternative emerged over time</li> </ul> <b>+</b>
9	An increase in the availability of alternatives from the view of a parent firm increases the likelihood of IJV <i>liquidation</i> or <i>sell-off</i> regardless of the extent of know-how acquisition.	<ul style="list-style-type: none"> <li>• IJV termination because of an increase of alternatives can not be held against the IJV itself</li> </ul> <b>0</b>

Notes: The aim is to differentiate intended and unintended IJV exit, thus, propositions that discuss IJV survival are not included in this table

**+** Intended IJV exit    **0** Neutral IJV exit    **—** Unintended IJV exit

The role of national culture has been investigated in various studies within the international business research area. However, the majority of IJV exit studies do not differentiate between particular dimensions of culture and their implications for specific IJV exit modes. This article discloses that national culture determines a firm's preference for inter-firm partnership or going it alone approaches, and thus impacts the willingness to internalize an IJV and to liquidate an IJV if available alternatives for business operation increase. I illustrate that dimensions of culture are classifiable into two categories: the first category determines a parent firm's preference for continuing the IJV with the *existing IJV partner* (i.e., uncertainty avoidance and long-term orientation), and the second category influences a parent firm's approval of *inter-firm partnerships per se* (i.e., power distance, individualism and masculinity). Applying the reverse logic of studies that have investigated cultural influence on a firm's mode for market entry (e.g., IJV or WOS), this paper shows the preference of firms for IJV termination according to their origin.

## 5.2 Limitations and Future Research

The proposed framework is limited in several ways, which indicates the need for further research. The framework assumes that the foreign IJV partner seeks entry into the market of the local IJV partner and that parent firms combine complementary resources by means of IJVs (e.g., market know-how and technology). On the one hand, the proposed framework is applicable to other IJVs in which firms contribute complementary resources (i.e., "link-alliances"), since such IJVs are likely to become learning races (Dussauge et al., 2000). On the other hand, it might be fruitful to incorporate IJVs in which parent firms contribute similar resources (i.e., "scale-alliances"). In such IJVs, parent firms instead desire to *access* the other IJV partner's resources and do not have a remarkable *learning* intent (Dussauge et al., 2000).

Despite the potential advantages gained by firms through establishing IJVs (e.g., achievement of strategic objectives), IJVs can also be a source of threat for participating firms (Deeds and Hill, 1996). "For example, if one firm appropriates its partner's technological know-how, that behaviour will translate into an erosion of the partner firm's competitive advantage" (Das and Teng, 2001: 260). This is particularly the case if the IJV partners are competitors (Hennart and Zeng, 2005; Park and Ungson, 1997; Polidoro et al., 2011), operating in the same markets, selling rival products and serving similar customers (Dussauge and Garrette, 1999). Hence, it might be fruitful to incorporate IJVs into the framework that is



established between competitors, since such IJVs are more prone to exit than IJVs between non-competitors (Baek et al., 2009; Park and Russo, 1996).

As already stated, local and foreign parent firms of market entry IJVs aim for financial performance (Osland and Cavusgil, 1996). However, firms weigh the relevance of their respective IJV objectives differently (Yan and Gray, 1994). Since the foreign IJV partner seeks an entry into the market of the local partner, it evaluates the IJV strictly by financial performance measures (Büchel and Thuy, 2001; Nguyen and Larimo, 2010). Although financial performance is a crucial performance criterion for the local partner, too, it is not as critical as it is for the foreign partner (Yan and Gray, 1994). Consequently, it would contribute to this framework if future research incorporates the importance of the respective IJV objectives of participating parent firms.

Existing exit barriers may hinder an IJV's exit despite the fact that its development may predict its termination, for example because of sufficient parental learning and satisfactory performance. A parent firm's IJV termination through internalization may imply the other IJV partner's willingness to sell its stake in the IJV (Kogut, 1991). Internalization of an IJV may be excluded or impeded by conflicting contracts, such as defined IJV durations (Hennart and Zeng, 2005) or governmental restrictions that prohibit full ownership of foreign firms (Contractor, 1986). Furthermore, an IJV may continue to be critical for a firm despite the availability of better alternatives, since a firm's attachment to the IJV partner blocks the pressures for relationship changes (Inkpen and Beamish 1997). Therefore, the understanding of the topic under study would be enhanced if potential exit barriers were included in the proposed framework.

### **5.3 Managerial Implications**

This paper shows that learning within market entry IJVs is not only an important IJV exit determinant, but that it is and should be an essential objective of parent firms. A sole resource *access* instead of a know-how *acquisition* strategy, as suggested by some researchers (e.g., Hennart and Zeng, 2005), may cause serious issues in a dynamic IJV setting. As the proposed framework illustrates, various situations such as unsatisfactory IJV performance and decreasing IJV importance may emerge over time, leading to a firm's desire to terminate an IJV. Only a sufficient level of know-how acquisition by the IJV partner ensures the continuation of the venture through its internalization. Consequently, to avoid an unintended IJV exit, firms should aim to acquire the knowledge that is lacking in the IJV partner. Furthermore, before establishing an IJV, firms should consider whether the IJV is embedded

within the other IJV partner's core business, since the propensity for divestment of such IJVs is rather low (Li, 1995).

It has been illustrated throughout the paper that managers frequently face a dilemma in operating an IJV. On the one hand, the partners need to contribute valuable resources to the IJV to justify participation and enable the IJV's competitiveness (e.g., Steensma and Lyles, 2000). On the other hand, both partners have strong incentives to protect their valuable know-how from unintended transfer to the other partner in order to avoid adverse shifts of bargaining power. The transfer of know-how is particular likely if the firms contribute complementary resources such as technology and local know-how to the IJV (Kale et al., 2000). Such an IJV line-up is especially critical for firms with disadvantageous learning conditions, since these parents are prone to losing the 'learning race' (Hamel, 1991). Firms therefore need to reconsider IJV formation if they fail to embed a learning intent across their IJV employees, contribute more transparent or transferable know-how to the IJV (e.g., market know-how is easier to acquire than technological know-how), and feature less capacity to absorb know-how (Hamel, 1991). Indeed, firms may compensate for shifts in bargaining power by the increased contribution of additional valuable know-how, but since a partner could apply this know-how outside the IJV context, significant competitive disadvantages are to be expected.

Firms that cooperate with IJV partners from very different national cultures need to be aware that preferences for inter-firm partnerships may diverge significantly. For example, when screening suitable IJV partners and managing IJVs, firms should consider that firms with low long-term orientation terminate IJVs relatively promptly. Consequently, firms with low long-term orientation are prone to terminate IJVs even in the event of short periods of unsatisfactory IJV performance (Larimo and Nguyen, 2010; Pothukuchi et al., 2002), the marginal decrease in IJV importance, and the minor increase in IJV alternatives. This fact becomes even increasingly evident since a firm's values and its determining role on IJV exit are stable over time and do not change during inter-firm cooperation (Barkema and Vermeulen, 1997; Erramilli, 1996; Hofstede, 2001).

## 6 References

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