

# An Empirical Assessment of the International Joint Venture Motives of Developing and Developed Countries

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*Systematic study of the 'motives of IJV formation is fairly recent in international business and marketing strategy literature. The accumulated research has reported an extensive array of IJV motives. However key questions remain insufficiently explored. It has been argued that there are significant differences between the motives of developing and developed country IJVs. Despite the intuitive appeal and conceptual support, there is limited empirical evidence to systematically assess this proposition. This paper is an attempt to assess the evidence to corroborate the proposition. Based on an international survey of IJVs formed between developed and developing country partners, it investigates the nature of IJV motives. The empirical results shed new light and question the ambit claim that IJV motives of parent firms from developing and developed countries are different for all types of resource seeking motives.*

Field of Research: International Business, IJV Motives, Developed-Developing economies, Resource-based view (RBV)

## 1. Introduction

Despite the global financial crisis of 2008-09, the pace of global business investment in last two decades has been impressive (WTO, 2009). Both developed and developing countries have witnessed significant growth in investment. This is also corroborated by the aggregate data on international trade and investment compiled by UNCTAD. Many developing countries have consistently attracted FDI from developed countries in a variety of forms including the formation of International Joint Ventures (IJV). IJVs are viewed by many international investors as a strategy of minimising their risk of operating in developing country environments (Griffith et al 2001, Si and Bruton, 2003, Sim and Ali, 2001, Jun and Singh, 1996). The proliferation of IJVs globally has prompted research attention in various aspects of IJVs including the assessment of IJV motives. The cumulative evidence indicates a wide range of motives of IJV formation. It is however unclear whether the reported motives apply equally to developed and developing country firms. Intuitively it seems logical to argue that the motives of developed and developing country IJV parents would be different. However any attempts to

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make generalizations are fraught with difficulties due to differences in the country specific environments. Without systematic investigation and evidence it is difficult to support either proposition. Review of the literature suggests that the hypothesis that motives of firms from developed and developing countries are different has not been empirically tested. The objective of this study is to assess if the motives of developed and developing country firms are different or similar. The paper is organised into 5 sections – review of literature is followed by a brief overview of the methodology. Findings, discussion and conclusion constitute the other sections.

## **2. Literature Review**

This section considers the findings of previous studies that provide the context for the research question. It also provides a brief overview of the ‘resource based view’ (RBV). Features of the developing and developed countries are discussed extensively in management literature. For example, the developing-developed country divide is often explained in terms of various socio-economic indicators such as the per capita income, income distribution and literacy levels. This divide can also be operationalised in terms of the resource access of these groups of countries. Firms from the developed countries generally have access to a distinct portfolio of resources that are generally expensive to create and maintain and are capital intensive. Due to their low imitability they are presumably a source of significant competitive advantage. Firms from these countries also have greater access and ownership of many intangible resources such as patents, latest technology and brand names that are valuable, scarce, and hard to imitate and lack substitutes. Developing countries on the other hand generally have better access to their own country specific resources such as local knowledge, vast untapped markets and inexpensive inputs such as labour. As a consequence of these differences and their impact on resources access, ownership and availability, it can be argued that the resource seeking motives are different for IJV parents in different environments. This is consistent with the arguments of (Hyder, 1999); Beamish (1988) that motives of developing and developed country IJVs are different.

**Table 1: Motives of (International) Joint Venture Formation**

<b>Reasons</b>	<b>Developed Country (%)</b>	<b>Developing Country (%)</b>
Government suasion or legislation	17	57
Partner’s need for other partner’s skills	64	38
Partner’s need for other partner’s attributes or assets	19	5

Source: Beamish (1988)

Beamish (1988) has highlighted two unique features to differentiate developed and developing countries - (1) developed country JVs are more likely to be created to obtain the skills of other partners, and (2) developing country JVs, are created as result of legislative necessity in the developing countries. These observations are consistent with earlier findings of Janger (1980) and Tomlinson (1970).

**RESOURCE BASED VIEW:** Unlike the previous studies that are based on multiple perspectives, this research is driven by the logic of the RBV. The RBV has become an influential theoretical perspective in international business (Peng, 2001; Hitt et al., 2000; Wright et al. 2001). The resource-based view concentrates on the antecedent role of internal resources and considers firms as heterogeneous entities characterized by their unique resource bases (Barney et al 2001; Peng, 2001). The RBV acknowledges the link between firm resources and performance. It argues that success of strategic alliances such as the IJV depends upon the capacity of each partner to contribute valuable resources. RBV argues that competitive advantage is derived from two major attributes of resources (1) heterogeneous resource control by firms and (2) imperfect resource mobility (Barney, 1991, 101). As most businesses require multiple resources to gain and sustain competitive advantage, IJVs are formed to achieve superior resource combinations that firms individually cannot achieve (Das and Teng, 2000). Physical assets alone rarely help a firm build sustainable competitive advantage (Reed and DeFillippi, 1990). Businesses are increasingly reliant on intangible resources such as tacit knowledge of key stakeholders, intellectual property and special skills etc. The competitive advantage of a firm is built upon its unique and difficult-to-transfer resources combinations. IJV motives are therefore 'resource seeking motives' of parent firms.

Given the fact that developed and developing countries have quite different resource endowments, resources availability in these environments will be very different. It is therefore argued that IJV motives of the developed and developing country IJV parents will be different. Despite the intuitive appeal, there is limited empirical evidence to systematically corroborate either proposition. The arguments gleaned from the literature are inadequately supported by conclusive evidence and therefore do not permit generalization. To sum up, the evidence supporting the propositions that there are significant differences between the developing and developed country IJVs at best is empirically limited and inconclusive and therefore needs further scrutiny.

### **3. Methodology**

Primary data for this study was obtained through an international survey of IJV parent firms from developed and developing countries. Respondents were asked to indicate the importance of various tangible and intangible resources as possible motives of IJV formation. The concept of 'resource' in this research is measured by using multiple indicants. The questionnaire identified a list of 31 possible resource-based motives, which were derived from the

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review of prior literature and discussions with key IJV stakeholders (Sharma, 2007). A seven-point, linear numeric scale was used to assess the intensity of agreement and/or importance of resources. Respondents were asked to indicate the levels of importance they attached to various tangible and intangible resources at the time of setting up of IJVs. The findings are based on 87 responses (36 developed and 51 developing).

**Hypothesis:** The relative importance of motives of ‘resource seeking motives IJVs are different for founding or parent organizations from developed and developing countries.

The purpose of the hypothesis is to verify if the developed-developing country divide can be translated into specific motives. Independent samples t-test is used to test the above proposition. Sample means of the resource importance of parent firms from developed and developing countries are compared using the classical means testing formula. Table1 below indicates distinct resource motives (identified by \*\*) that are statistically significant for developed and developing country IJV parent firms.

Table 2: Significance of tangible resource importance of respondents from developed and developing countries

<b>TANGIBLE RESOURCES</b>	<b>Significance (Levene Statistics)</b>	<b>Significance (T statistics)</b>
Distribution warehouse	.044	.024
Retail outlets	.018	.045
Financial resources	.006	.000
Sales staff **	.695	.001
Advertising and promotional infrastructure	.233	.932
R&D facilities	.380	.743
Production facilities **	.838	.000
Storage facilities	.023	.001
Office premises	.012	.000
Global distribution network **	.100	.002
Global communications network	.000	.000
Customer database	.030	.949

Table 3: Significance of intangible resource importance of respondents from developed and developing countries

INTANGIBLE RESOURCES	Significance (Levene Statistics)	Significance (T statistics)
Distribution technology	.572	.207
Production technology	.098	.154
Knowledge of the best management practices	.001	.035
Knowledge of market structure	.000	.000
Knowledge of supplier practices	.000	.000
Knowledge of the competitors	.000	.000
Knowledge of local rules	.000	.000
Knowledge of international customers	.000	.000
Skills and competence of production staff **	.625	.000
Skills and competence of managerial staff	.001	.104
R&D Capabilities	.317	.764
Advertising and promotion capabilities	.484	.793
Knowledge of buyer behaviour	.000	.000
Market research capabilities	.461	.370
Access well known brand names **	.311	.000
Access to patents	.680	.101
Trade union contacts **	.205	.000
Local political contacts **	.508	.000
Local contact in government **	.242	.000

#### 4. Findings and Discussion

Tables 2 and 3 indicate that only three tangible resources out of 12 ('sales staff', 'production facilities' and 'global distribution network'), and five intangible resources out of 19 motives ('skills and competence of production staff', 'access to well known brand names', 'trade union contacts', 'local political contacts' and 'local contact in government') fulfil the requirement of both significance of Levene's test for homogeneity ( $p > .05$ ) and t-test ( $p < .05$ ). With only eight out of 31 resource motives found significant, one is tempted to argue that overall there is limited support for the proposition that the relative importance of motives of IJV formation is different for founding or parent organizations from developed and developing countries. However it is clear that differences are more pronounced for specific groups of resources such as the 'contact' based cluster of intangible resources. Table 4 provides details important tangible and intangible resources for developed and developing country respondents by comparing means of these groups for two distinct categories of resources. Together these results stress the fact that 'knowledge and contact based intangible resources' are more likely to be differentiated than other resources based on whether an IJV parent firm is from either developed or developing country.

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Table 4: Resources with significant difference based on developed-developing country of origin (composite table)

Resource	Developed or developing countries	N	Mean	Std. Deviation	Sig. (2-tailed)
Sales staff	Developed	35	4.17	1.978	.001
	Developing	51	2.63	1.990	
Production facilities	Developed	35	5.11	2.272	.000
	Developing	50	3.02	2.152	
Global distribution network	Developed	35	3.14	2.303	.002
	Developing	50	4.62	2.019	
Skills and competence of production staff	Developed	36	5.08	1.888	.000
	Developing	51	2.43	1.921	
Access well known brand names	Developed	35	3.17	2.036	.000
	Developing	51	4.80	1.939	
Trade union contacts	Developed	36	4.83	1.935	.000
	Developing	51	2.02	1.631	
Local political contacts	Developed	36	5.31	1.687	.000
	Developing	51	2.20	1.755	
Local contact in government	Developed	36	5.58	1.645	.000
	Developing	51	2.18	1.740	

The evidence of this study provides limited support for a blanket claim that 'resource motives of IJV parents from developed and developing countries are always different'. Contrary to the claims of Beamish (1988) and Hyder (1999), the table above indicates that out of a total of 31 resources, eight resources (three tangible and five intangible) are significantly different for developed and developing countries. For developed country IJV firms, important resources include 'access to contacts' with key operators (trade unions, local politicians, and government agencies), 'sales staff', 'production staff' and 'production facilities'. Developing country IJV parent firms consider 'access to a global distribution network' and 'well-known brands' as important resource motives compared to their developed country counterparts.

Appraisal of these findings in the context of prior claims and assertions highlight two interrelated constraints: (1) Apart from Beamish (1988) there is no prior study that empirically tested the claims of the separation of developed-developing country motives. Irrespective of the host country of the IJV assessment, a vast majority of studies have focussed on the views of IJV parents from developed countries only. For example, studies by Tatolgu (2000), Fahy et al (1998), and Chan (1996) investigate the views of western firms operating in Turkey, Hungary and Hong Kong respectively. (2) The changed business and investment environment since the previous studies has created significant impediments in appreciating these findings. For example, most developing countries are now open to business with much fewer

restrictions and barriers to foreign investment in their countries. The foreign investment climate now in India, for example, is significantly different from the periods when the earlier studies were conducted. Prior to 1991 the IJV format was the most common mode of FDI in India. Although IJVs continue to be a popular format of global investment in India, since 1991 it is not a legislative requirement for FDI in India (Lal and West, 1997). As a consequence of similar policy changes in most developing countries such as India, China, Brazil, Indonesia and Russia, there is little basis now to test the claims of Beamish that one of the key motives of developing country IJVs is to fulfil legislative requirements. Findings of this research shed new light to the question: Are IJV motives different or similar for developing-developed country parents? These findings challenge the two interrelated and largely anecdotal and unsubstantiated claims that: (1) developing country IJVs seek financial and technological resources and (2) resource seeking motives of developed and developing country IJV parents are clearly separated. Let us explore the issues associated with technology and finance resources. It is assumed that developing countries lack technology and capital resources which they seek from the developed country IJV partners. However this is not supported by the evidence of this study. Only some forms of technology (production and distribution technology, for example) are relevant for specific types of parents such as IJVs with unrelated goods. 'Seeking production technology' is not relevant for IJV firms of the services sector. Similarly it is also interesting to observe that 'financial resources', although rated as more important by developing countries, is statistically not different from the group of developed country respondents.

Follow up interviews with key respondents indicated an interesting dimension of this debate. Contrary to the belief that learning as a motive is largely confined to firms from developing countries, all respondents agreed that both groups are keen to learn from their respective partners. Irrespective of the background of the IJV partners, learning is a motive common to IJV firms from both developing and developed countries. While IJV parent firms from the developing countries are usually keen on technological learning, developed country partners are motivated by their desire to learn about the markets and industry structures of the developing countries (Hyder, 1999). Similar arguments are also made by Wong (1998) and Banai et al (1999). Overall the available evidence confirms that the IJV motives are different but not along the pattern suggested in the literature or prior studies. It is reasonable to accept that developed countries generally have better access and ownership of certain resources such as technology. However they may not be relevant to every IJV parent and thus not considered as a dominant resource-seeking motive of their developing country IJV partners.

## 5. Conclusion

Based on the evidence of this study, it is argued that the research questions of whether developing-developed country IJV motives are similar or different requires reconsideration and further investigation. A fresh approach is required as the global environment of investigating this issue is significantly

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different from the research environment when prior studies were conducted. The peculiarities of IJV resource motives should be systematically investigated as the new global regime is quite different from the times when an IJV was the only option available to foreign firms and a 'technology transfer' clause was mandatory. Policy makers in many developing countries then believed that their local firms needed protection from multi-national firms operating independently within their national boundaries. The participation of foreign firms in local economic activities was desirable only to the extent that it provided access to critical inputs that domestic firms did not readily possess.

In addition to the claims of distinct streams of dominant resources, it is important to acknowledge that the literature alludes to a subtle yet significant pattern of 'resource dependence asymmetry' between the two groups of IJV parents. The review of the literature suggests, albeit subtly that developing country IJV parents are more dependent on the developed countries for access to critical resources - for example, the arguments of Kale and Anand (2001). While the findings of this study confirm that resource preferences are different for some resources of IJV parents from developing or developed countries, the composition of resource-seeking motives indicates a very different picture of resource dependence. Going purely by the number of resource-seeking intentions of the two groups, it is clear that more developed country parent firms are dependent on more resources of their local IJV partners. The extent and complexity of resources sought by the developed countries confirm that mutual resource dependence is unequal but the developed country IJV parents are at considerable disadvantage compared to their developing country partners for IJVs to operate in developing countries.

This study argues that the real issue that influences the extent of resource dependence is not whether the IJV parent is from developed or developing background, rather that an IJV parent is of either local or foreign origin. A local IJV parent firm, irrespective of the developmental label, is more likely to have access, ownership and understanding of many critical resources - mostly of an intangible nature - that emanate from its local environment. IJV success in many host countries may not be so much reliant on the latest production technology or access to financial resources but on good understanding of key local participants and business processes. In such situations, local developing country parents may be important contributors of such resources when IJVs are established in their respective countries. As this study highlights, firm- or industry-specific resources such as knowledge of customers, suppliers and competitors that are either socially or culturally embedded, are often very important for foreign firms. There is therefore no support for the perception that the resource-seeking motives of developing country parent firms are more compelling. It was perhaps a valid assertion in pre-liberalisation era of experienced by developing countries when some of the prior studies were conducted.

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