WHAT CAUSES BREAK-UPS?
FACTORS DRIVING THE DISSOLUTION OF MARKETING-ORIENTED INTERNATIONAL JOINT VENTURES

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In recent years, accelerating globalization of markets along with the breakdown of national barriers have rendered international joint ventures (IJVs) ubiquitous and strategically significant tools for managing international business operations (Anderson, 1990; Dhanaraj & Beamish, 2004; Geringer & Hebert, 1991; Harrigan, 1987; Lu & Beamish, 2006). As such they have become viable means of achieving economies of scale, critical mass, reducing risks, learning new skills and technologies, and facilitating effective resource sharing (Beamish & Berdrow, 2003; Bleeke & Ernst, 1993; Harrigan, 1988; Yip, 1992). These trends stimulated intensive research on IJVs in scholarly international business literature.

An IJV involves two or more legally distinct organizations each of which shares the decision-making activities of the jointly owned entity (Geringer, 1988). Based on this definition, an IJV has to meet at least one of the three following criteria: (1) at least one parent firm is headquartered outside the IJV’s country of operation, (2) a joint venture has a significant level of operations in more than one country, and (3) parent firms are from different...
countries (Geringer & Hebert, 1989). Since the early 1980s there has been an explosive growth of IJVs. Although, these inter-firm collaborations have become a critical part of corporate strategy and firm growth, they also entail serious competitive risks and managerial difficulties in implementing the cooperative relationships, which hinder the achievement of collective goals and lead to the dissolution of these entities (Park & Ungson, 2001). In addition, as a consequence of the globalizing world, businesses also choose to break-up as a more munificent strategic choice.

A substantial literature has been materialized with the purpose of examining the motivations for IJV formation, the factors behind their strategic success, and measuring their performance. However, it is surprising that relatively less number of studies have been conducted on the dissolution of these entities despite the fact that the dissolution of IJVs is as likely as their survival. Parkhe (1993) indicates that at least 50 percent of equity joint ventures either fail or dissolve, which may cause various adverse outcomes for the partner firms. This relative lack of research drives our attention to the dissolution of these IJVs, which constitutes a new avenue for international business scholars and practitioners regarding the existing and newly arising challenges in the management of this specific entry mode. In this study, we aim to examine the firm- and country-level antecedents of IJV dissolution. This research sets out to shed light on two important research questions: (1) What is the role of competition–commitment relationship between parent firms on the likelihood of IJV dissolution? and (2) How do the country-level variables affect IJV dissolution?

This study is expected to contribute to the IJV literature in several ways. First, IJV dissolution has been regarded as an outcome of bad performance, financial incapability, undesirable alliance partners, or organizational failure. However, this study conceptualizes dissolution from a more recent perspective in alignment with the developments in the international business. We do not necessarily define dissolution in terms of failure or bad performance but as a strategic choice of the parent firms to bring the IJV to an end. This can represent a successful achievement of preset goals for the IJV and/or changes in the corporate strategies of the parents that render the IJV redundant. Recently, the practice of associating dissolution with organizational failure or poor performance has become more questionable in line with the changes in the contemporary business environment. For instance, when the functional foods joint venture, Altus Food was formed by Novartis and Quaker Oats in 2000, the global market for functional foods was estimated to be growing by around 15 percent per year, against 3 percent for most of the food industry. At the time of its
inception, the goal for Altus was to bring together Quaker’s mass marketing of food and beverages with Novartis’ research in nutrition science and to launch new products in this attractive business segment. However, the expectations about the functional foods business did not turn out to be as high as anticipated – just five percent in a good year; and Altus operations were ceased in 2002. In this case, the main reason for the termination of Altus can be attributed more to a strategy change in the partner firms due to disappointing environmental conditions rather than to the failure of the IJV.

Second, we focus on marketing-oriented IJVs (i.e., the IJVs that are formed with the objective of joint selling, distributing, and promoting goods or services that are either jointly or individually manufactured by the partner firms). Among other knowledge management and transfer issues in cross-border alliances, marketing knowledge deserves a special attention for several reasons. One of them is that it has been relatively neglected and requires more attention compared to technology, manufacturing, know-how types of knowledge (Wong, Maher, & Luk, 2002). Another reason rises from the fact that marketing skills and expertise are more tacit than production, and technology (Shenkar & Li, 1999; Lane, Salk, & Lyles, 2001), are embedded and not easily codified in formulas (Zander & Kogut, 1995). Finally, in the literature, marketing knowledge is defined as idiosyncratic and cultural/social-context dependent (Hau & Evangelista, 2007; Zander & Kogut, 1995). Third, we test our hypotheses with a comprehensive set of IJV dissolutions formed by both U.S. and non-U.S. firms; on contrary to most of the studies, which are limited to only the IJVs formed by U.S. companies.

The organization of the chapter is as follows. In the next section, we explicate the theoretical background and our hypotheses. Then, in the methodology section, we explain the data and the covariates used in the analyses. After we present the main findings, we elaborate on the major implications for IJV literature and practitioners along with the limitations and suggestions for future research.

LITERATURE REVIEW

In tandem with the drastic increase of IJVs, the academic research regarding various issues about them has also augmented. Myriad of studies examining the antecedents and outcomes of partner/location selection, different control and safeguarding mechanisms, performance, and stability of IJVs have appeared in revered scholarly outlets. A review of the previous research on IJVs reveals that a vast amount of these studies is focused on their formation
There has been a significant debate on the drivers of IJV formations in the literature. Scholars, particularly from the fields of economics, strategic management, and international business, have provided various conceptualizations of the IJV formations based on various theories. Among those conceptualizations, the ones based on transaction cost theory and resource-based view (RBV) have received more interest in the literature (Tsang, 2000). Transaction Cost Analysis (TCA) has been extended by Williamson (1991) to explain the hybrid modes of governance among firms (e.g., joint ventures, strategic alliances, etc.), which are regarded as a compromise between the two ends of the market-hierarchy continuum. Williamson (1991) suggests that hybrid governance structures entail better incentives for partners to avoid opportunistic behavior and prove superior against uncertainty due to their more adaptive and flexible structure than hierarchies, while providing better control and monitoring than markets. In his seminal work on joint ventures, Kogut (1988) describes the conditions “best suited to a joint venture” as “high uncertainty over specifying and monitoring performance, in addition to a high degree of asset specificity.” As Tsang (2000) suggests due to the fact that the high degree of asset specificity rules out market transactions and that the high uncertainty precludes precise specifications – and hence ex ante stipulations – of the complications and contingencies regarding a) performance monitoring and b) safeguarding against opportunism, a joint venture becomes a viable option since it provides the partners with better alignment of incentives by mutual allocation of resources and sharing the residual value of the venture. However, according to the RBV of the firm, drivers of joint ventures are two-fold: joint development and mutual exploitation of resources (Tsang, 2000). RBV places particular emphasis on the significance of efficient development of resources as well as the efficient utilization of extant resources (Prahalad & Hamel, 1990). As Ohmae (1989) argues in today’s competitive environment, critical know-how content of products and services reached such levels that it is infeasible for many firms to retain cutting-edge sophistication in all of them, which obligates seamless access to external sources of know-how (Tsang, 2000). Due to the resources required for, and various drawbacks of, acquisitions, they may not be the best way to obtain a certain capability. Moreover, by their very nature, capabilities may not be readily available in the market (Teece, 1986; Kogut & Zander, 1992). These two factors may render a joint venture an optimum choice. According to the RBV, exploitation of complementary resources is another motive behind the joint ventures. Joint ventures entail sharing of
complementary resources in order to create synergy (Tsang, 2000). The joint venture between General Motors and Toyota, New United Motor Manufacturing Incorporated (NUMMI) is a textbook example for sharing of complementary resources as each partner contributes to the joint venture with a distinct capability which is not only very costly to develop in-house, but also impossible to obtain from the market. Specifically, General Motors contributed to NUMMI with its vast distribution network, while Toyota contributed its superior capability to design small cars as well as cutting-edge manufacturing methods. In sum, firms utilize joint ventures (1) to gain quicker access to requisite skills to perform certain tasks that requires hefty and consequential investments, (2) to share investment risks, and (3) to decrease the total amount they invest (Kogut, 1991).

Based on these drivers, Kogut (1991) argues that “due to its benefits of sharing risk and of reducing overall investment costs, joint ventures serve as an attractive mechanism to invest in an option to expand in risky markets” and offers an explanation of joint venture phenomenon based on real options theory. Originating in finance, real options theory has also received attention from strategic management researchers as well (Reuer & Tong, 2005). According to Kogut and Kulatilaka (2001) real options, which illustrate a firm’s investments in non-financial assets, enable the firm to safeguard against, and react to, future events, be favorable or unfavorable, in a contingent fashion. Therefore it is suggested that a portfolio of real options provide the firm with the right, rather than the obligation, to take a “future specified” action, and hence enabling the firm not only to decrease loss in case of a unfavorable situation, but also to increase its gains in an event of an unexpected opportunity in the future (Reuer & Tong, 2005; Bowman & Hurry, 1993; McGrath, 1997). Based on this rationale, real options theory represents a viable means to capture the recursive nature of managerial decision-making where managers amend their future strategies consistently with regard to changing market conditions (Trigeorgis, 1996). Joint ventures, from a real options theory perspective, can be regarded as mechanisms that provide the firm with the flexibility to proactively manage its long- and short-term strategies with regard to market uncertainty and risk (Kogut, 1991). Joint ventures are “real options” because partner firms can (1) limit their downside losses with the initial investment and/or with a limited amount as they can divest from the joint venture more easily than a wholly owned subsidiary in case of an unfavorable situation and (2) maintain an “option” to expand and increase their investment if the market conditions become unexpectedly favorable (Reuer & Tong, 2005). Kogut (1991) suggests and empirically shows that firms expand by using
their option by fully acquiring the joint venture and making it a wholly owned subsidiary.

This interest in the formation of joint ventures is indeed expected, when it is considered that the study of the motivation for corporate strategic choices is a milestone in business policy search (Park & Russo, 1996). However, what is unexpected is the relative lack of research on the failure and/or dissolution of these entities, although several studies report high failure rates such as 7 in 10 (Coopers & Lybrand, 1986), 2 in 3 (Auster, 1986; Kogut, 1989), and 1 in 2 (Harrigan, 1988). Based on these records, it is obvious that more thorough analyses should be conducted on the break-ups of IJVs.

A fundamental idea about these entities is that they are not expected to last indefinitely. Kogut (1989) argues that dissolution of an IJV reflects a business failure or an irresolvable conflict among parent firms. Porter (1987) puts forward that dissolution is significant because companies generally do not shut down a successful IJV and dissolution happens only when the company is not financially viable. Lane and Beamish (1990) associate dissolution with less tangible adverse outcomes, such as loss of reputation and add that in the long-term dissolution can create political tensions. Franko (1971) also asserts that the reason for dissolution might be the parties being undesirable alliance partners for others or the host country that sponsors the local firm might not be considered a suitable place for investment.

While recent studies have more comprehensive approaches, they maintain the same stance about IJV dissolution with their predecessors. Ring and Van de Ven (1994) suggest that “it is not only in the economic but also in the psychological best interests of the organizational parties to find ways to preserve their socially embedded relationship” (p. 107). Park and Ungson (1997) examine the effects of national culture, organizational complementarity, and economic motivation on the instability of IJVs and conclude that opportunistic threat and rivalry appear to be a stronger indication of the dissolution than organizational variables. In addition, Geringer and Hebert (1991) find that IJVs that are perceived to be successful by their parent firms live longer compared to the others evaluated to be unsuccessful. Recently, Dhanaraj and Beamish (2004) search for the relationship between equity ownership and survival of IJVs and confirms the declining, nonlinear, and asymmetrical relationship.

Along with the studies that view IJV terminations as failures and undesirable outcomes, another line of scholarly inquiry takes a different stance and posits that the termination of an IJV may be due to a realized or prospective favorable context as well. For instance, Gomes-Casseres (1987) identify various “adaptive” drivers of joint venture termination. Specifically,
he argues that joint ventures may be terminated when (1) one of the partners acquire or develop new capabilities, (2) one of the partners enhance their network which stimulates a change in the ownership structure of the joint venture to be able to exploit new economies of scope, and (3) a change in government occurs. Kogut (1991) reports that unexpected growth in the product market, which is a favorable prospect rather than a failure or undesirable outcome may lead to joint venture termination via acquisition; whereas, unexpected problems may have no effect on the likelihood of termination. While Kogut’s (1991) results reveal that the underlying dynamics of termination are more complex to be simplified to “undesirable outcome” or “failure,” Makino, Chan, Isobe, and Beamish (2007) enhances this view of termination by integrating the concept of “intended termination.” They also distinguish between intended termination, in which the initial purposes of IJV are either achieved or disappeared; and unintended termination, in which unexpected contingencies emerge that lead to the termination. The critical contribution of Makino et al. (2007) is the idea that the termination of an IJV might be a positive (i.e., intended termination) as well as a negative (i.e., unintended termination) outcome in contrast to most of the previous studies viewing the termination as a result of poor performance, undesirable alliance partners, or organizational failure (e.g., Franko, 1971; Kogut, 1988; Ring & Van de Ven, 1994). Prior to Makino et al. (2007), Park and Russo (1996) differentiate “failure” from instability by stating that, instability, which can be signaled through dissolution and acquisition, can be perceived as a positive outcome if the end status of the IJV is acquisition. In sum, undesirable outcomes and failures are not the only reasons triggering the joint venture terminations since partners may terminate the joint venture due to several reasons including unexpected success, change in firm strategy, development of new capabilities, and adapting to changes in the environment.

In the arguments that follow, our main direction of research is on the dissolution of marketing-oriented IJVs (i.e., the IJVs that are formed with the objective of joint selling, distributing, or promoting goods or services that are either jointly or individually manufactured by the partner firms). In this study, we do not define dissolution in terms of failure or bad performance as most previous studies do but conceptualize it as a strategic outcome, which is contingent on the competition–commitment relationships between parent firms, cultural characteristics of both parties and IJV, and also the host country attractiveness. In doing so, we avoid the questionable practice of associating dissolutions with bad performing IJVs, which is not always the case in current global business world.
THEORETICAL FRAMEWORK AND HYPOTHESES

In this study, we adopt TCA and agency theory perspectives to examine the firm- and country-level antecedents of IJV dissolution. TCA has received substantial consideration in international economics, management (Anderson & Gatignon, 1986; Dunning, 1988; Caves, 1996), and marketing (Rindfleisch & Heide, 1997) fields. This view posits that IJVs are chosen when the transaction costs involved in an exchange are too high for using market mechanism, but not high enough to form a hierarchy (Hennart, 1991; Kogut, 1988; Teece, 1986). They can be explained as a form of hybrid governance structure that shares the attributes of markets and hierarchies in order to avoid and weaken the hazards of each. They are vulnerable to transaction hazards, which threaten the success of relationships between the parent firms (Park & Russo, 1996).

Firm-Level Antecedents

IJVs are designed to meet the goals of each parent and the collective undertaking in an international context, therefore, will be successful when the value of collective outcomes exceeds opportunity costs incurred by the parent firms, and when the sharing of both is fair (Jarillo, 1988). Given similar strategic objectives and resource bases, a partner can identify, appreciate, and then assimilate another partner's know-how (Cohen & Levinthal, 1990). In the context of marketing-oriented IJVs, managers – when expanding to foreign countries – can choose to partner with those competitors having local marketing expertise, which can provide access to established distribution channels to market a new product (Beamish, 1993). Furthermore, companies can choose to form marketing collaborations with competitors to pursue short-term integration of similar product and market positioning strategies. Key to IJV survival is striking the right balance between individual competitive motives and cooperation to meet collective interests (Luo & Park, 2004). If this balanced and equitable-contributions system with its benefits and safeguards is jeopardized, so is the IJV. Incentives to deceive can be easily activated and partners may behave opportunistically to attain their own competitive goals instead of the collective goals of the IJV.

In this context, we expect that IJVs are more likely to dissolve when the parental goals conflict directly (Kogut, 1988) due to the competition between the partner firms, who both seek to maximize their shareholder value. For example, in a setting where the parents of an IJV are competing
in the same market, the opportunistic hazard is inevitable, because present friends can easily become future foes (Harrigan, 1988; Morris & Hergert, 1987). It is difficult to develop cooperation in the face of self-interest and competitive uncertainty (Park & Ungson, 2001). Luo and Park (2004) suggest that without cooperation, mutual forbearance becomes less appealing to the partners, as they lack a long-term view. Therefore, IJV becomes a costly governance structure to arrange inter-firm transactions due to increased safeguarding mechanisms against opportunistic hazards. Thus

**Hypothesis 1.** International joint ventures are more likely to dissolve when the partner firms are direct competitors.

Agency theory, together with TCA, forms another theoretical basis for this study. The combination of both theories is a good choice in examining the IJV dissolution since they form the theoretical background for the existence of firms. The ownership configuration of the IJV is also a variable of interest since it reflects the control and coordination issues. There has always been a debate on how inequality should affect the dissolution of an IJV. Since equity has been interpreted as a measure of control and dominance, the more absolute control implies the less potential conflict as decisions can be made easily by the majority partner (Killing, 1983; Blodgett, 1992).

In the context of marketing-oriented IJVs, the ownership and control are particularly important regarding the development of new products for different countries. Especially, in high-technology industries, strategic flexibility to remove potential bureaucratic inferences in different countries has favored dominant equity ownership over equal equity partnerships (Calantone & Zhao, 2000; Ding, 1997). When there exists a dominant ownership of a single parent, the remaining parents have an a priori perception that the achievement of their individual interests may be jeopardized. Therefore, dominant ownership can, paradoxically, simplify the control process. However, the dominant ownership of a parent firm can cause agency problems. In an IJV, where the dominant parent firm plays the role of a principal and the other party as an agent, several agency costs might be incurred in the form of either adverse selection or moral hazard. Since these processes create an outcome uncertainty, neither control nor commitment can be maintained easily and therefore the likelihood of IJV dissolution increases.

In the literature, there is also evidence that it is possible to control an IJV with an equally shared ownership structure (Geringer & Hebert, 1989; Mjoen & Tallman, 1997; Schaan, 1988). This perspective suggests equity as a measure of commitment and involvement, with the implication that as the ownership is equally shared, the likelihood of instability, allowing for
a higher level of involvement by the parent firms (Beamish, 1985; Mjoen & Tallman, 1997). Moreover, the control and commitment interpretations need not be at the expense of another: a control perspective focuses on a singular point of majority ownership, whereas a commitment perspective treats equity as a continuum across the domain of possible ownership levels (Dhanaraj & Beamish, 2004). Thus

**Hypothesis 2.** International joint ventures are more likely to dissolve when the partner firms do not have an equal equity ownership.

The internal uncertainty in an IJV is, in part, a function of the parent firms’ cultural differences (Reuer, 2001), where 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” (Hofstede, 1980; Trice & Beyer, 1993). Since organizations are entities embedded in larger societies, it is assumed that the parent firms of an IJV represent the values and institutions of organized societies in boundaries defined by nationality (Ronen & Shenkar, 1985; Shan & Hamilton, 1991; Park & Ungson, 1997). A study by Child, Markoczy, and Cheung (1994) has shown that national culture affects managerial behavior, philosophy, and moderates the relationship between structural variables and the performance of IJVs.

For an IJV to survive, parent firms should be able to work together, agree on goals, and re-agree on them with respect to ex-post changes in the internal and external environment (Doz, 1996); and these will be more difficult, when IJV partners are from culturally different nations (Hennart & Zeng, 2002). It is suggested that IJVs suffer from commitment and cooperation problems emerging from the differences in the values and behaviors of partners (Harrigan, 1988; Mohr & Spekman, 1994; Parkhe, 1991) that lead to differences in management philosophies, organizational and administrative practices, employee expectations, and responses to strategic issues (Kogut & Singh, 1988; Schneider & De Meyer, 1991). These challenges stem partly from the lack of shared norms or values (Park & Ungson, 1997), which can reduce effective communication (Rao & Schmidt, 1998), trust (Aulakh, Kotabe, & Sahay, 1996; Doney, Cannon, & Mullen, 1998), and knowledge sharing (Parkhe, 1991; Mohr & Spekman, 1994) between parent firms. This issue becomes even more significant in the case of marketing-oriented IJVs where the impact of culture on marketing practices is vital regarding the partner firms’ understanding of, and approach to, marketing orientation. When entered into an IJV, partner firms attempt to apply their own marketing policies regarding product differentiation, pricing and promotion, and selling strategies, which hinder the achievement
of collective goals. While operating in a foreign market, partner firms’ standardization versus adaptation policies can also cause some problems regarding the marketing and selling of goods and services in that market.

Child et al. (1994) find a significant relationship between partner firm nationality and IJV failure whereas Lane and Beamish (1990) conclude that cultural compatibility between partners is the most important factor for the endurance of an alliance relationship. Overall, the uncertainty due to cultural differences makes it costly to negotiate and transfer management philosophies and practices (Pothukuchi, Damanpour, Choi, Chen, & Park, 2002). IJV partners from different national cultures experience greater difficulty in their relationships (Lane & Beamish, 1990), which increases the likelihood of IJV dissolution. Thus

**Hypothesis 3.** International joint ventures are more likely to dissolve when the partner firms have dissimilar management philosophies.

### Country-Level Antecedents

As explained earlier, the impact of cultural similarity between IJV parent firms on the likelihood of IJV dissolution has been widely studied, and the extant literature unequivocally reports that IJVs between partners from different cultures, ceteris paribus, are more likely to dissolve than the IJVs between partners from similar cultures (Park & Russo, 1996; Park & Ungson, 1997; Hennart & Zeng, 2002). Nonetheless, the impact of the cultural differences between the host country and the IJV partners on the likelihood of IJV termination are yet to be analyzed despite the well-documented fact that this phenomenon is rather diagnostic in foreign market entry decisions (Barkema, Bell, & Pennings, 1996; Reuer & Koza, 2000; Zhao, Luo, & Suh, 2004; Tihanyi, Griffith, & Russell, 2005), subsidiary management (Boyacigiller, 1990; Roth & O’Donnell, 1996), performance (Mjoen & Tallman, 1997; Brouthers, 2002), and the impact of IJV on the shareholder value of the partner companies (Merchant & Schendel, 2000; Reuer, 2001; Hanvanich, Richards, Miller, & Cavusgil, 2003).

In the IJV literature, it is suggested that the differences in the “cultures” between the host country and the IJV partners has a complicating impact on the ability of IJV to operate effectively in the host country (e.g., Barkema et al., 1996; Yan & Zeng, 1999). Some of the studies in the extant literature associate international operations of firms in culturally dissimilar countries with increased intra-organizational conflicts and limited realization of organizational plans due to the incongruities in norms, values, and
institutions in the host country (Tihanyi et al., 2005). For instance, Root (1987) posits that higher information needs coupled with the operating costs from encoding and decoding gaps in languages due to the cultural distance between the partner firm’s home country and the subsidiary’s host country might lead to higher transaction costs. As such, managers shy away from operating in culturally distant markets due to the considerable difficulty in utilization of the extant operating routines (Kogut & Singh, 1988). We expect all these perplexities to have a detrimental impact on IJV. Specifically, an IJV operated in a culturally distant market entails the additional costs and risks due to the unfamiliarity with the local environment (e.g., differences in morals, manners, laws and regulations, and legal and political practices). Put differently, operating in a culturally distant market increases the “liability of foreignness,” which can be defined as all additional costs a firm operating in a market overseas incurs that a local firm would not incur (Hymer, 1976). Thus

**Hypothesis 4.** International joint ventures are more likely to dissolve when the cultural distance between the host country and the IJV partners increases.

While expanding to foreign countries, firms incur with a variety of complications which aggravate the risk of their investments including general political risk (e.g., risks due to the political instabilities), ownership and control risks (e.g., expropriation, intervention), operational risks (e.g., price and inventory control and local content requirements), and transfer risks (e.g., arbitrage risk and remittance control) (Hill, Hwang, & Kim, 1990). These risks reflect the ambiguity as to the stability of the current political and economic conditions and government policies, which might prove substantial for the profitability and survival of the investment in that country (Agarwal & Ramaswami, 1992). The entry mode literature submits that firms choose, ceteris paribus, licensing and joint venture to enter the foreign market, for they enable the firms to decrease its exposure to the risks associated with investing in a foreign country via limiting their transaction specific assets, and via enabling them to divest their investment relatively more easily without incurring consequential losses (Agarwal & Ramaswami, 1992; Brouthers, 2002; Hennart, 1991). Put differently, firms tend to limit their investments in a country with a risky environment despite the fact that this also limits their potential gains from that market (Reuer, 2001).

However, countries with low investment risk and high potential, offer greater opportunities for the IJV partners. Such an environment facilitates the extraction of an IJV’s competitive potential (Merchant & Schendel, 2000) and
secures the repatriation of earnings as well as expropriation of assets (Agarwal & Ramaswami, 1992). Firms not only have the opportunity to achieve economies of scale (Sabi, 1988) along with a willingness to establish a long-term presence in markets with high potential, but also seek ways to extract as much benefit as possible, which will be hindered in the presence of a partner. Firms in host country markets enter into marketing IJVs as a way of utilizing an established network (Contractor & Lorange, 1988). They seek to benefit from a partner’s sales forces, market information, and local knowledge necessary to operate in the host country. Since future success is contingent on the continued availability of such infrastructure, these firms may also prefer to internalize this knowledge and acquire their joint ventures (Lele-Pingle, 1998). As such, marketing IJVs located at markets with high attractiveness are expected to be provided with better opportunities in terms of competitive selling, advertising, promotion, etc. in a munificent environment. Thus

Hypothesis 5. International joint ventures are more likely to dissolve when they are located in a country with low market potential.

Along with the aforementioned firm- and country-level antecedents, we also control for possible industry effects that might affect the likelihood of IJV dissolution. Specifically, we differentiate between IJVs with parents (1) in high- vs. low-tech industries and (2) in manufacturing vs. non-manufacturing industries. When an IJV depends on know-how or technology that cannot be easily codified and requires intimate human contact for exchange, venture partners can appropriate firm-specific competitive advantages (Hamel, Doz, & Prahalad, 1989). We want to examine whether an IJV characterized as a high-tech firm is more vulnerable compared to the one that involves more discrete contributions like financing or physical resources (Teece, 1986). Moreover, we also look at the effect of parental firms’ coming from a manufacturing industry on the likelihood of IJV dissolution since these industries may differ significantly in terms of the types of resources they use, supply chain dynamics, and marketing practices. The conceptual framework of the aforementioned hypothesized relationships is represented in Fig. 1.

**DATA AND METHOD**

*Sample*

This study uses the dissolution of an IJV as the unit of analysis. IJV dissolution data are extracted from Thomson Financial Security
Database (TFSD). To be included in the study, an IJV has to meet three criteria. First, it has to involve a cross-border investment. A cross-border investment is defined as the one, which involves firms from the same country forming an IJV in a foreign country, or firms from different countries forming an IJV either in a third country or in one of the partners’ home country. Second, the joint venture has to involve a marketing aspect (e.g., an IJV with the objective of jointly selling, distributing, and promoting goods
or services that are either jointly or individually manufactured). Third, following Park and Ungson (1997), Merchant (2000), Reuer and Koza (2000), Pothukuchi et al. (2002), and many others, IJVs with more than two partners are excluded to be able to more precisely capture and better measure key variables like inter-partner competition and inter-partner cultural differences.

A search with these three criteria in TFSD for the period of 1980–2004 yields 5,196 IJVs in 123 different countries. This dataset is refined by excluding observations in which IJV is between a company and an international financial institution (e.g., IBRD and UN) and by eliminating IJVs formed in countries for which data are unavailable. For instance, an IJV between US and Liberian companies is excluded since cultural distance is one of the independent variables of this study and cannot be calculated for United States and Liberia because values of Hofstede’s cultural dimensions for Liberia do not exist (Hofstede, 1980). Final sample includes 3,038 observations complete in every aspect. Table 1 represents the yearly distribution of “non-dissolved” and dissolved IJVs.

Once the sample has been identified, country-level data on the economic and demographic characteristics of 63 potential host-country markets have been added to the database. Although there exists more than 200 countries and territories during the sample period (i.e., 1980–2004), 63 countries included in the study represent more than 90 percent of the total domestic product and population of the world during the sample period.

Variables

**Dependent Variable**

The dissolution of an IJV is captured by a dichotomous variable which takes the value of 1 if the IJV dissolves during the observation period, and 0 if the IJV is still active at the end of the observation period.

**Independent Variables**

We define two categories for the independent variables: (1) parent firm-related variables and (2) country-related variables.

(1) **Parent firm-related variables:** In the previous section, we posit that an IJV is more likely to dissolve when (1) the competition among the parent firms diminishes their cooperation, (2) the parent firms do not have equal share ownership (i.e., 50 percent each) in the IJV, and (3) the partner firms have dissimilar management philosophies. Competition (COMP) is measured
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by a dummy variable equal to 1 when the 4-digit SIC codes of the parents are equal and 0 otherwise. The ownership structure (OWN) is measured with a dummy variable coded as 1 for IJVs where each parent company has equal equity ownership in IJV, and 0 otherwise. The differences between management philosophies (MANPH) are captured via the cultural distance between the parents of the IJV. Cultural distance (CD) is measured using Kogut and Singh’s (1988) approach, where the distance is defined as the accumulated deviation between the variance-adjusted cultural scores of the IJV parents. Cultural scores were obtained from the scores reported by Hofstede (1980), where cultural sub-dimensions for uncertainty avoidance, individuality, power distance, and masculinity are provided. These scales are used in the following formula:

$$CD_{jk} = \frac{1}{4} \sum_{i=1}^{4} \frac{(I_{ij} - I_{ik})^2}{V_i}$$

where the left-hand side represents the cultural distance between the country $j$ and $k$. Each cultural sub-dimension is represented by $i$, whereas $V_i$ is the sample variance of scale $i$. Therefore, $I_{ij}$ and $I_{ik}$ denote the score of the parents of the IJV on cultural sub-dimension $i$, respectively.

(2) Country-related variables: We also posit that an IJV is more likely to dissolve when (1) the cultural distance between the host country and the IJV partners increases and (2) the IJV is located in a country with low market potential. Cumulative cultural distance (CUMCD) is measured in the same way as the MANPH is calculated. Using Kogut and Singh’s (1988) method and Hofstede’s cultural dimensions, we first calculate the cultural distance between the home country of each parent firm and the host country (i.e., the country where the IJV was formed), then we add these two cultural distance values to find the cumulative cultural distance (CUMCD). According to the OECD (1983), the indicators of market potential (MARKPOT) include the size of the market, the level of GNP, the growth of GNP, manufacturing sales, value added in manufacturing industries, etc. (OECD, 1983). Moreover, a widely cited resource that employs an index approach to measuring market potential is Business International (Cavusgil, 1997), which uses three indicators for world geographic regions and individual counties: (i) market size, (ii) market intensity, and (iii) market growth. A recent example of significant factors of a market’s potential are size as measured by the population, economic well-being as measured by GDP per capita, and market dynamism as indicated by the annual GDP growth rate (Cavusgil, Kiyak, & Yeniyurt, 2004). Further
a number of studies (Kwack, 1972; Ahmed, 1979; Agarwal, 1980) highlight the relationship between market potential and FDI inflow. Therefore, we also use the total FDI inflow as a percentage of GDP of that country in the year IJV as a proxy for the market potential in the country where the IJV is formed. The data are extracted from the World Development Indicators Database of the World Bank for the period of 1980–2004.

Control Variables
We control for a series of other factors that may have an effect on the likelihood of dissolution of IJV. In particular, two mutually exclusive dichotomous variables are defined: (1) high- vs. low-tech industries and (2) in manufacturing vs. non-manufacturing industries. Each company is categorized into 11 industry clusters based on their 2-digit SIC codes. Then, two different super-clusters are defined: high tech vs. low tech and manufacturing vs. non-manufacturing. Following the nomenclature of SIC code system, high-technology vs. low-technology classification is based on Calantone and Schatzel (2000) in which companies with two digit SIC codes of 28, 35, 36, 37, and 38 are named as “high tech” companies, hence the remaining are “low tech” companies. The companies with 2-digit SIC codes between 20 and 39 are classified as “manufacturing” companies whereas the remaining are classified as “non-manufacturing” companies. The descriptive statistics for, and the correlations among, the variables are presented in Table 2.

Method
Since our dependent variable is dichotomous, binomial logit model is used to test for the probability of IJV dissolution. The regression coefficients estimate the impact of the independent variables on the probability of IJV dissolution. A positive sign of the coefficient indicates that the variable associated with that coefficient increases the probability of dissolution, and vice versa. The model can also be expressed as:

$$P(y_i = 1) = \frac{1}{1 + \exp(-a - X_iB)}$$

where $y_i$ is the dependent variable, $X_i$ the vector of independent variables for the $i$th observation, $a$ the intercept, and $B$ the vector of regression coefficients (Hastings, 1986).
### Table 2. Descriptive Statistics and Correlations.

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<tr>
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<tr>
<td>CUMCD</td>
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<td>1.5665</td>
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<td>−0.0434*</td>
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<td>GDP per capita</td>
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<td>0.0330</td>
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<td>−0.0477*</td>
<td>0.0861*</td>
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<td>0.0971*</td>
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<td>CUMCD^2</td>
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<td>11.3116</td>
<td>−0.0236</td>
<td>−0.0141</td>
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<td>0.8801*</td>
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* indicates $p < .05$. 

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What Causes Break-Ups?

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RESULTS

The results of a series of binomial logistic regression for the sample are presented in Tables 3 and 4. The estimated coefficients represent the likelihood of dissolution over non-dissolution: a positive coefficient indicates that the independent variable increases the probability of dissolution, whereas a negative coefficient indicates the opposite.

In our first model (Model 1), where we test for the linear relationships, we find that direct competition between the parent firms (COMP) has no significant effect on the probability of dissolution ($\beta = .273$, $p > .10$), therefore our Hypothesis 1 is rejected. Nevertheless, the relationship we find between the equal ownership (OWN) supports Hypothesis 2. In particular, we posit that if the firms share equal levels of equity ownership, the IJV dissolution will be more likely, and our result suggests that the equal ownership structure in an IJV significantly decreases the probability of dissolution ($\beta = -1.288$, $p < .01$). We find that the difference between management philosophies (MANPH) of the parent companies has no significant effect on the likelihood of IJV dissolution ($\beta = -0.170$, $p > .10$), therefore Hypothesis 3 is rejected.

Regarding the country-level variables the results provide partial support to the postulated relationships. We find no statistically significant evidence to

| Variable                | Coefficient | Robust Standard Error | z      | $P > |z|$ |
|-------------------------|-------------|-----------------------|--------|--------|
| COMP                    | 0.273       | 0.226                 | 1.210  | 0.227  |
| OWN                    | -1.289      | 0.213                 | -6.060 | 0.000  |
| MANPH                  | -0.170      | 0.140                 | -1.210 | 0.226  |
| CUMCD                  | -0.056      | 0.124                 | -0.450 | 0.654  |
| Population             | -0.001      | 0.000                 | -2.980 | 0.003  |
| GDP per capita         | 0.039       | 0.013                 | 2.940  | 0.003  |
| GDP growth             | 0.050       | 0.032                 | 1.580  | 0.113  |
| FDI inflow             | -0.073      | 0.055                 | -1.320 | 0.187  |
| MANU                   | 1.068       | 0.272                 | 3.930  | 0.000  |
| TECH                   | -0.655      | 0.277                 | -2.370 | 0.018  |

Observations: 2,324
Log-pseudo likelihood: -382.123
LR-$\chi^2$: 87.940
df: 10
Significance: 0.000

Table 3. Partial Likelihood Estimates of the Covariates on the Likelihood of IJV Termination (Linear Effects).
support Hypothesis 4. Specifically, the relationship between the cumulative cultural distance of the partners to the host country of the IJV (CUMCD) and the likelihood of IJV dissolution is insignificant ($\beta = -.056$, $p > .10$). However, regarding the market potential (MARKPOT), we find that the population of a country has a significant negative impact ($\beta = -.001$, $p < .01$), whereas the GDP per capita has a significant positive impact on the probability of dissolution. GDP growth rate and FDI inflow have insignificant effects on IJV dissolution ($\beta = .039$, $p > .01$; $\beta = .050$, $p > .10$, respectively). Therefore, Hypothesis 5 is supported for population.

As per control variables, we find that marketing IJVs in manufacturing industries are more likely to dissolve when compared to their non-manufacturing counterparts ($\beta = 1.068$, $p < .01$). However, the results indicate that the marketing IJVs in high tech industries are less likely to dissolve ($\beta = -.655$, $p < .05$) than the IJVs in low-tech industries.

In our second model (Model 2), we test for the quadratic effects of the differences between the management philosophies (MANPH$^2$) and the cumulative cultural distance (CUMCD$^2$). Specifically, we find that the linear effects of the differences between management philosophies (MANPH) are negative and statistically significant ($\beta = -1.083$, $p < .05$), whereas the

Table 4. Partial Likelihood Estimates of the Covariates on the Likelihood of IJV Termination (Linear and Quadratic Effects).

| Variables            | Coefficient | Robust Standard Error | $z$  | $P>|z|$ |
|----------------------|-------------|-----------------------|------|---------|
| COMP                 | 0.272       | 0.227                 | 1.200| 0.231   |
| OWN                  | -1.295      | 0.213                 | -6.080| 0.000   |
| MANPH                | -1.083      | 0.539                 | -2.010| 0.044   |
| CUMCD                | 1.136       | 0.588                 | 1.930| 0.053   |
| Population           | -0.001      | 0.000                 | -3.060| 0.002   |
| GDP per capita       | 0.041       | 0.013                 | 3.040| 0.002   |
| GDP growth           | 0.057       | 0.033                 | 1.750| 0.080   |
| FDI inflow           | -0.076      | 0.055                 | -1.370| 0.169   |
| MANU                 | 1.066       | 0.272                 | 3.920| 0.000   |
| TECH                 | -0.678      | 0.278                 | -2.440| 0.015   |
| MANPH$^2$            | 0.129       | 0.092                 | 1.390| 0.163   |
| CUMCD$^2$            | -0.195      | 0.101                 | -1.920| 0.054   |

Observations: 2,354
Log-pseudo likelihood: -379.738
LR-$\chi^2$: 92.710
df: 12
Significance: 0.000
quadratic effects of the same variable (MANPH²) has a positive and significant effect ($\beta = .129, p > .10$). In addition, the results indicate that both the linear ($\beta = 1.136, p > .10$) and quadratic ($\beta = -.195, p > .10$) effects of cumulative cultural distance are significant. Positive sign of the linear effect (CUMCD), and the negative sign of the quadratic effect (CUMCD²) indicate that the relationship between the cumulative cultural distance and the likelihood IJV dissolution can be characterized by an inverted U-shaped curve.

CONCLUSION AND DISCUSSIONS

This research examines the impact of a set of firm- and country-related antecedents, which trigger IJV dissolution. Based on TCA and agency theory frameworks, we analyze the effect of the competition, the share of equity ownership, and the similarity of management philosophies between parent firms as firm-related variables; and the cultural distance between parent firms and the host country and host country potential as country-related variables.

First, we find that there is no significant relationship between inter-partner competition and the likelihood of IJV dissolution. This result is contrary to what we propose in relation with the TCA literature, which argues that direct competition between partner firms increases the likelihood of IJV dissolution. However, our finding implies that competition between parent firms, although it can create some detrimental impact on (1) exchanging firm-specific assets, (2) achieving collective goals of the independent entity, and (3) enabling the formation and maintenance of a trust-based relationship, does not significantly contribute to the explanation of IJV dissolution. This unexpected result is even more interesting when interpreted together with our second finding: the negative impact of equal ownership structure on IJV dissolution. This finding suggests that the equal equity ownership structure in an IJV significantly reduces the likelihood of dissolution. Although there are competing views in the literature regarding the effects of dominant versus equal ownership on the dissolution, our results support that when the ownership is equally shared, the involvement and commitment of parent firms for the achievement of the collective goals of the independent entity increase, and the likelihood of IJV dissolution decreases. Furthermore, since this structure leads to an increasing trust between partners, moral hazard decreases leading to reduced safeguarding costs as well. This highly significant result along with the insignificant result
of the impact of competition between parent firms can lead to a notable argument in the IJV literature. It can be asserted that commitment between parent firms tend to be more important than the competition in explaining the destiny of the IJV. Ceteris paribus, the extent of the parent firms’ cooperation efforts, regardless of the competitive nature, makes the difference in the likelihood of IJV dissolution. In a similar fashion, it might also be argued that parent firms tend to emphasize commitment over competition, which suggests that even the imperfect cooperation between competitors (Brandenburger & Nalebuff, 1996) can affect the end outcome of inter-firm collaborations significantly.

The third result is the insignificant relationship between management philosophy and the dissolution of IJV. In the IJV literature, cultural differences between parent firms constitute a major block in the development of successful relationship whereas our result challenges this view. A plausible explanation might be the difference between our study and previous research in terms of the approach to the dissolution of IJVs. One commonly held perspective in most of the previous empirical studies is their conceptualization of the dissolution from a failure or poor performance point of view. However, as noted in the beginning, in line with the current global business world, we delineate dissolution as the partner firms’ strategic choice to bring the IJV to an end that can represent either a poor performance or a successful outcome. According to this conceptualization, an IJV relationship can dissolve when it accomplishes the targets set at the time of its inception or when the partners stop considering the host country as a potential market to invest due to some emerging contingencies; and under these circumstances, the similarity of partner firm cultures might not play a significant role any more.

Another interesting result of this research is the inverted U-shaped relationship of the cultural distance between the nationalities of the IJV parent firms and the host country, which reinforces the role of cultural distance as an important covariate. Cultural distance represents the extent of dissimilarities between the IJV parents and the cultural context in the host country. These differences increase the transaction costs since IJV parent firms should bear extra costs and risks of unacquaintedness to differences in morals, manners, laws and regulations, and legal and political practices, along with an increased “liability of foreignness” in the host country. However, the negative quadratic effect found in the analyses reveals a diminishing impact of cultural distance, suggesting that the perplexities due to high cultural distance are likely to be less inimical to the dissolution of the IJV. This may be attributed to an increase in the awareness of IJV parents
towards possible ramifications of cultural distance as they operate in a
country where culture is very different.

In addition, some managerial practices will also be different as the
cultural distance increases. As such, various business routines (e.g.,
distribution, advertising), which are considered as “norms” in one culture,
might be considered impractical and even be censored in another culture
(Hofstede, 1980, 1991; Parkhe, 1991). As an example, in a marketing IJV,
partner firms and local entities in the host country might approach
marketing issues and problems differently due to dissimilarities in their
marketing orientation. However, operating in a culturally similar country,
IJV partners might have the opportunity to work with local entities, which
have analogous attitudes and similar business routines and therefore they
will experience fewer, if any, communication difficulties. Obviously, the
better IJV partners and local entities understand each other, the lower the
likelihood of IJV dissolution since lower cultural distance between the IJV
partners and the host country will not only facilitate better communication,
but also enable more stable and long-term relationships.

Finally, we find that there is a significant and positive relationship
between the market potential and the likelihood of IJV dissolution. This
phenomenon may be attributed several reasons. First, parent firms may wish
to reap the benefits of the host country alone, instead of sharing them with a
partner. Second, markets with high potential may also have easy-to-handle
bureaucratic procedures and incentives, which diminish the investment risk
as well as the need for a partner. For example, the IJV between GE Lighting
and PT Sinar Angkasa Rangkut of Indonesia formed in June 1994 was
terminated in 1995 when GE announced that it obtained 100 percent
ownership of the joint venture and the new wholly owned company was
named PT GE Lighting Indonesia. John Opie, the president and the
chief executive officer of GE said that “Indonesia offers significant
opportunity, which is important to GR Lighting’s overall Asia-Pacific
growth strategy and gaining 100 percent ownership provides us the
flexibility necessary to meet the needs of the rapidly growing Indonesian
and Asian lighting markets.” Therefore, marketing IJVs located at markets
with high potential are provided lucrative opportunities such as competitive
selling, advertising, and promotion that sometimes partner firms might
choose to terminate these relationships just to get the benefits of these
markets individually. The negative, albeit insignificant, relationship between
FDI inflow, which may be regarded as a proxy of economic, political, and
investment risks, and parents’ propensity to dissolve the IJV supports this
argument. Besides, as predicted by TCA, lower levels of such risks decrease
the transaction costs, and hence facilitates hierarchical forms instead of arm’s length transactions.

Overall, the findings of this study have specific methodological vantages as well. First, contrary to most of the studies, which are limited to the IJVs that involve at least one U.S. partner firm, this study examines these relationships with a more comprehensive dataset, which also includes IJVs formed by non-U.S. companies within the period of 1980–2004. Using only U.S.-based firms have long been acknowledged as a limitation in the IJV literature since IJV-related phenomena are as relevant to other companies as they are to U.S. companies (e.g., Park & Ungson, 1997; Merchant, 2000). Therefore, we believe that examining IJVs involving non-U.S. firms enhances our understanding of IJV dissolution. Second, our study is one of the few that report the quadratic effects of some factors on the likelihood of IJV dissolution. Analyzing the quadratic effects helps better capture the dynamics of IJV-related phenomena since it enables to detect any “ceiling effects” and optimal values. Third, as a result of using a vast dataset spanning 21 years and 63 countries, we also take into account the effect of the national culture similarity of partner firms and host country in addition to inter-partner cultural similarity as an indicator of IJV termination, since we have many IJVs formed by two partners from different countries (e.g., German and French firms) in another host country (e.g., China).

As with any other study, this study has some limitations, which open further avenues of research. In this study, we only focus on marketing IJVs, which imply a more tacit and idiosyncratic knowledge transfer between partner firms. This aspect contributes to refine the analyses of our hypotheses via utilizing a comprehensive dataset comprising a significant portion of IJVs formed within the observation period. However, in the future alternative researches might consider the dynamics of other IJVs formed with different motivations (e.g., manufacturing IJVs or R&D IJVs). Second, using Hofstede’s cultural scores has its own ramifications. Hofstede’s cultural scores dimensions have not been updated since 1983, which raises serious doubts about their validity in the contemporary context. Moreover, Hofstede’s dimensions are based on the survey of the employees of a single company, which may not represent the characteristics of the entire population. Third, we employ an objective measure of dependent and independent variables since we derive our dataset from secondary sources. However, in the IJV literature, using objective versus subjective measures has always been debated (Park & Ungson, 1997; Parkhe, 1991, 1993). So, future research can examine “the inner workings,”
such as organizational complementarities and managerial basis of the IJVs including strategic fit between partner firms by using primary data.

REFERENCES


What Causes Break-Ups?


