Relationship of Age to Trust, Commitment, and Learning in International Joint Ventures

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ABSTRACT: Strategic alliances between multinational organizations have been prevalent for more than half a century. These alliances are costly to enter and yet, have a history of failure. International Joint Ventures (IJVs), which is a type of strategic alliance, has been an important mode of entry for companies aiming to operate in foreign markets. However, companies have been guarded of forming an IJV due to their high failure rate. Despite their shortcomings, joint ventures are valuable for several reasons, including sharing resources, gaining access to potentially closed markets, and learning complementary skills from the venture partner. However, the age of the alliance (or venture) is an important element in assessing whether the partners achieve their goals. This study looks at the relationship between the age of the joint venture, trust, commitment, and learning effectiveness in Indian international joint ventures. Results show that age of the joint venture is positively related to trust between partners, commitment to the venture, and learning that takes place as a result of the venture.

KEYWORDS: International Joint Ventures, Trust, Commitment, Learning, Age

1. Introduction

Globalization of the business environment has been increasing for the last two decades. This is caused partly by the rapid integration of the economies of industrialized nations and the globalization of products, markets, consumer tastes, and lifestyles.
Organizations in developed and developing countries have realized that the pursuit of global markets was a necessary condition for business success. Establishing partnerships with firms from other nations was part of the push for globalization. Researchers and practitioners have suggested that the development of such partnerships is a key to success in the global marketplace. These partnerships, which can take various forms, are commonly known as strategic alliances and can range from licensing agreements to fully blown joint ventures.

Williamson (1975, 25) explained strategic alliances through his transaction cost approach. He contended that strategic alliances lie on a continuum between the free market (informal cooperative ventures) and the hierarchy (mergers and acquisitions) method of conducting business. Since we consider joint ventures to be a type of strategic alliance, they could also be considered to be in the middle of this continuum. Another interpretation of strategic alliances places them on a continuum where contractual agreements lie on one end, representing low control and low resource commitment, and joint ventures on the other end, representing high control and high resource commitment (Hill et al. 1990, 117).

Due to their lack of stability and tendency to fail, joint venture decisions have to be carefully considered and well thought-out (Berquist et al. 1995, 14). Firms that enter into joint ventures often focus on the benefits that the venture will provide without considering costs involved in the formation and maintenance of the venture. Despite the clear identification of the potential benefits, the costs incurred are often both substantial and difficult to predict (Morris and Hergert 1987, 15). Even with the high rate of failures for joint ventures, firms choose to enter into such alliances to gain access to world markets. In fact, that job satisfaction ranks higher in joint venture managers than in wholly owned subsidiary managers (Medina 1996, 23).

Researchers as well as practitioners have conducted research in the area of IJVs in hopes of discovering relationships and linkages, which will facilitate successful interfirm and international joint ventures. An important area of research in IJVs has been the motive for IJV formation (Harrigan 1985, 8; Kogut 1988, 319). Kogut suggested that organizations enter into IJVs because of transaction cost economies (contractual agreements are cost effective as opposed to internalizing transactions), strategic intention of the firm to gain a competitive advantage over others in the market, or the intent to learn from other organizations in the environment. This study will focus on the relationship between age, trust, commitment, and learning effectiveness. In order to discuss the various issues involved in IJVs, it is necessary to define an international joint venture. An international joint venture (IJV), for the purpose of this study, is defined as a
separate legal organizational entity representing the partial holdings of two or more parent firms in which the headquarters of at least one is located outside the country of operation of the joint venture. This entity is subject to the joint control of its parent firms each of which is economically and legally independent of the other (Shenkar and Zeira 1987, 549).

Researchers (Beamish 1994, 60; Cullen et al. 1995, 91; Varadarajan and Cunningham 1995, 282) have identified important variables to be examined in the field of strategic alliances, more importantly, international joint ventures. Among the important topics of discussion are learning, trust, and commitment.

2. Organizational Learning

Organizational learning is “a process in which members of an organization detect errors or anomalies and correct it by restructuring organizational theory of action, embedding the results of their inquiry in organizational maps and images” (Argyris 1977, 116). Other definitions of organizational learning are:

- The capacity or processes within an organization to maintain or improve performance based on experience (Nevis et al. 1995, 73)
- Organizational Learning means the process of improving actions through better knowledge and understanding. (Fiol and Lyles 1985, 803)
- Organizational Learning is a process by which knowledge about action outcome relationships between the organization and the environment is developed (Daft and Weick 1984, 285).

Researchers (Senge 1990, 70; Pedler et al. 1991, 31; Garvin 1993, 78) agree that today’s business environment offers dramatic changes for businesses which necessitates learning. From the above definitions of learning it can be inferred that knowledge can improve performance.

2.1 Role of Organizational Learning in IJVs

IJVs are formed for various reasons. Among the most common reasons for formation is the organizational learning approach (Kogut 1988, 319) which stated that firms form IJVs to acquire knowledge. Lyles (1988, 56) stated that firms form joint ventures
primarily to learn. In her case study, Lyles (1988, 64) identified three important issues that pertain to organizational learning in joint ventures:

1. learning that occurs within the JV parent firm
2. the process by which the learning occurs
3. what the firm learns

Hamel (1991, 83) agreed with Lyles’ (1988, 56) assessment that learning was the primary focus of firms forming strategic alliances. Learning may not be the primary objective of firms in every cooperative arrangement (Westney 1988, 79). Learning can, however, become an indispensable mechanism for cooperative strategies. Firms that enter into cross-border alliances or cross-industry alliances need to acquire knowledge from its environment or from other organizations in the environment in order to be successful in that environment (Westney 1988, 84).

Organizational learning theory posits that prior learning facilitates the learning and application of new and related knowledge (Cohen and Levinthal 1994, 227). With respect to IJVs, firms have to learn how to manage the alliance and perform in a foreign market with a partner from another culture. Barkema et al’s (1997, 426) study found that experience with domestic joint ventures and with international wholly owned subsidiaries contributed to the longevity of the joint venture. In their study, Barkema et al. (1997, 430) also found that prior experience with IJVs did not contribute to the longevity of the venture. This finding could be a result of firms in their sample experiencing problems with prior IJVs. In another study conducted by Zeira et al. (1997, 259), the authors asserted that joint ventures in related parent industries were less effective than joint ventures in unrelated parent industries. Similar to Barkema et al’s (1997, 426) study, Zeira et al’s (1997, 259) study also found that prior experience with IJVs did not seem to positively affect performance of the IJVs.

A study conducted by Inkpen and Beamish (1997, 177) found that bargaining power of firms, knowledge of firms, and the instability of the joint venture are closely related to each other. The authors state that as the level of local knowledge of the foreign partner increases, the bargaining power shifts to the foreign partner. Inkpen and Beamish (1997, 185) warn local firms in IJVs to safeguard their interests by constantly upgrading the knowledge that the local partner provides to the joint venture. On the other hand, it is important for the foreign partner to understand the local environment in order to have substantial bargaining power. Inkpen (1995, 103) also stated that learning in IJVs leads to better performance in the long run. March (1991, 71) agreed
with Inkpen’s assessment and further posited that knowledge gained through learning increases the competitive advantage of firms.

This study utilizes Kogut (1988, 319) and Fiol and Lyles’ (1985, 803) definition of organizational learning as the process of improving organization actions through knowledge transfer and increased understanding of the environment. Lyles (1988, 56) asserted that learning itself consists of changes in the state of knowledge, which makes organizations more effective in dealing with the uncertainties in the environment, thus improving performance (Hedberg, 1981, 84).

3. Organizational Trust

Current trends in the workforce and the structuring of organizations makes it even more important to understand trust and trustworthy behavior (Elahee 1999, 19). The level of trust in organizations affects its structure and processes and reduces transaction costs (Bromiley and Cummings 1995, 235). Jamieson and O’Mara (1991, 154) projected that 25% of the workforce will be minority based in the late 90s as opposed to 17% in the late 80s. This trend makes it essential for workers to develop mutual trust in order to function effectively with each other. The same logic can be applied to IJVs, where two cultures (national and corporate) merge to achieve a common goal. Given their differences, it is important to develop the trust necessary to ensure survival of the venture. Etzioni (1988, 63) suggested that trust plays a crucial role in all market transactions and should be considered a fundamental element of the social fabric.

According to Powell (1990), trust functions as a “remarkably efficient lubricant to economic exchange (that) reduces complex realities far more quickly and economically than prediction, authority, or bargaining” (p. 305). Mayer et al. (1995) defined trust as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (p. 711). Two interesting observations can be made from this definition of trust. First, the vulnerability of the trustor comes from the fact that there is something important to be lost by the trustor. And second, the vulnerability causes the trustor to be willing to accept some risk. Gilbert and Tang (1998) stated that organizational trust is “a feeling of confidence and support in an employer…it is the belief that an employer will be straightforward and will follow through on commitments.” (p. 326) For the purpose of this study Mayer et al’s (1995, 709) definition will be more useful in understanding
the role of trust in IJVs. Mayer et al. (1995, 709) stated that “irrespective of ability to control” the actions will be performed by the trustee. IJVs are organizational structures that do not always have an even control mechanism. Very often one party to the venture exercises more control over the other. In such cases it is important to establish trust, especially for the party with less control.

4. Organizational Commitment

Nelson and Quick (1997) define organizational commitment as “the strength of an individual's identification with an organization” (p. 109). Mowday et al. (1982, 106) discussed the existence of individual commitment to the organization. Commitment also exists at the organizational level, which refers to the commitment one organization feels towards another during strategic alliances, joint ventures, and other contractual agreements between organizations (Beamish, 1994, 60; Beamish and Banks, 1987, 1). Cullen et al. (1995) commented that in joint ventures “commitment reflects the actions and values of key decisionmakers regarding the continuation of the relationship, acceptance of the joint goals and values of the partnership, and the willingness to invest resources in the relationship” (p. 92). Initially, Meyer et al. (1990, 710) proposed two types of organizational commitment, affective and continuance. Meyer and Allen (1991, 61) introduced a third type of organizational commitment, normative commitment. Affective commitment refers to an individual's desire to remain with the organization because of their beliefs in the goals and values of the organization. Individuals who feel affective commitment are willing to put forth the effort to enhance the success of the organization and are loyal to the organization (Nelson and Quick 1997, 265). There is also a strong desire to remain a part of the organization because of their loyalty to the organization. Japanese employees who were offered lifetime employment most likely felt affective commitment towards their organizations.

Continuance commitment, on the other hand, refers to commitment that is based on the fact that an individual cannot afford to leave the organization (Meyer and Allen 1991, 65). Individuals invest time, effort, and other resources while working for organizations and sometimes feel that by quitting the organization they will lose the investment. This mentality describes continuance commitment to the organization. Meyer et al. (1990) differentiated between affective and continuance commitment by stating that “employees with a strong affective commitment remain with the organization because they want to, whereas those with strong continuance commitment remain because they need to” (p. 710).
5. Trust and Commitment in IJVs

Business and cultural differences between IJV partners often create conflict. It is therefore important for working relationships to be based on trust (Beamish 1994, 60; Madhok 1995, 117). Joint ventures require management and organization processes to create trust and the capacity to collaborate as they are considered to be inherently unstable (Cullen et.al. 1995, 91). Trust and commitment are both necessary for success of an IJV. Madhok (1995, 117) stated that trust has to be built over a period of time and can be time-consuming and expensive. Parkhe (1993) posited that trust is “the behavioral lubricant that reduces friction between two parties” (p. 302) and Cullen et al. (1995, 92) stated that commitment is crucial for successful IJV relationships. Cullen et al. (1995, 95) found that the greater the strategic importance of the IJV to its parent company, the greater the perceived IJV economic performance, and the more satisfaction a partner reports with the IJV relationship, the more committed that partner is to the IJV. Typically, IJVs have a less balanced equity structure as compared to domestic joint ventures (Llaneza and Garcia-Canal 1998, 49) and Zeira et al. (1997, 259) found that unequal equity joint ventures in Hungary were effective due to the patience of both the partners in managing their problems. Partner commitment is an important factor in influencing inter-party conflicts in joint ventures (Julian 2008, 6).

Tichy (1988, 1) suggested that senior executives must be involved in designing management processes that facilitate effective joint strategy formulation, create structural linkages, provide day-to-day coordination and communication, and establish a win-win climate. These processes will go a long way in establishing a climate of trust in the organization, which will improve the stability of the IJV.

Several researchers (Beamish and Banks 1987, 1; Buckely and Casson 1988, 32; Williams and Lilley 1993, 233; Madhok 1995, 117; Arino et al. 1997, 19) have asserted that trust is important for the effective functioning of IJVs. Beamish and Banks (1987, 1) maintained that viewing IJVs as ownership-centered entities erode the potentiality of the venture. Building effective social relations in the IJV proves to be a far more profitable option to both partners (Beamish 1985, 3). Creating and maintaining trust can lead to better performance (Gill and Butler 1996, 81) and ensure the long-term survival of the venture (Buono 1990, 28). Newburry and Zeira (1997, 87) confirmed that the issue of trust was more important to the functioning of the equity international joint ventures (EIJVs) than the international acquisitions (IAs) or international greenfield investments (IGIs). Trust, not pure markets or hierarchical relations, is crucial in sustaining relationships (Jarillo 1990, 31).
Chen and Boggs (1998, 111) found that trust is positively related to the prospect of long term cooperation. The authors also confirmed that cultural similarity and age of the joint venture was strongly related to trust and long term cooperation. Culturally similar joint ventures seemed to portray a higher level of trust towards the partner than culturally distant joint ventures. Madhok (1995) stated that “commitment develops through interaction, and results in a trust-based relationship that more closely resembles an internalized mode than a contractual one” (p. 125). Cullen et al. (1995, 91) examined partner commitment in IJVs and found that several factors were responsible for the increase in partner commitment. These factors were satisfaction with the venture (positive), perceived performance (positive) of the venture, and conflict (negative) in the venture. It can be seen from the above discussion that partner trust and commitment are important for the success of the joint venture. In fact, trust and commitment transcend cultural boundaries as was evidenced in a study on Confucian values in joint ventures (Zutshi 2006, 160). The authors found that Singaporean joint ventures in China and India were influenced by the Confucian values of trust and commitment between partners.

In summary, trust and commitment are crucial for the successful survival of IJVs. Commitment to the joint venture, either behavioral or attitudinal, results in higher learning in IJVs (Harrigan, 1985, 123). Schaan and Beamish (1988, 165) asserted that commitment to the organizational goals is a key variable related to IJV success. No matter how mutually beneficial and logical the venture initially seems, without commitment the IJV will fail to reach its goals Abdul-Rahman et al., 2014, 370). However, learning in an IJV is more than just a function of trust and commitment. Research has shown that most joint ventures tend to fail within the first three years of operation. Because of their high failure rate, longevity of the IJV would suggest that the goals of the partners are being achieved and thus we can hypothesize that IJVs with longer duration have higher learning success. It can also be hypothesized that trust and commitment in IJVs will depend on the age of the IJV. Meschi (1997, 211) found that culturally (both national and organizational) similar organizations tend to survive longer as IJVs than other organizations. Hence, we propose that:

\[ H_1: \text{ Age of the IJV and learning effectiveness are positively related.} \]

\[ H_2: \text{ Age of the IJV is positively related to the partner commitment.} \]

\[ H_3: \text{ Age of the IJV is positively related to trust between the joint ventures.} \]
6. Survey instruments

6.1 Learning Effectiveness Questionnaire
This study will use an adaptation of Si's (1996, 58) instrument of learning effectiveness that has 6 goals to measure learning effectiveness. The Cronbach's Coefficient for the original scale was 0.75 (Si, 1996, 58).

6.2 Trust Questionnaire
Cummings and Bromiley (1996, 84) developed the trust questionnaire which consists of 12 items to be rated from 1 (strongly agree) to 6 (strongly disagree) and is known as the Organizational Trust Inventory – Short Form (OTI-SF). The authors also developed a long form which consists of 62 items, but, according to the authors, the short form is reliable and valid in measuring organizational trust (see Cummings and Bromiley 1996, 89).

6.3 Commitment Questionnaire
The commitment instrument was developed by Cullen et al. (1995, 91) in order to assess partner commitment in Japanese IJVs. This is an 8 item instrument, adapted by Cullen et al. (1995, 91) from Mowday and Steers (1979, 224). Cullen et al. (1995, 91) has established reliability and validity for this questionnaire (Cronbach's Coefficient of 0.86).

6.4 Age of the IJV
Age of the IJV will be assessed by asking the respondents the month and year of the IJV formation and subtracting the answer from the year the study is conducted. For example, if a respondent replies that the IJV was formed in 1970, then the age of the IJV will be 1980-1970=120 months (assuming the study is conducted in 1980).

7. Sample Characteristics and Data Collection
Data was collected from Indian top management officials in Indian IJVs. A multi-item questionnaire was mailed to CEO’s of IJVs in India. Of the 1000 questionnaires mailed, 139 were returned for a response rate of 13.9 percent. Of the 139, 133 were usable for a net response rate of 13.3 percent. The questionnaires were mailed in two waves. Each wave consisted of 500 questionnaires equally divided among Asian IJVs.
and non-Asian IJVs. Of the 500 questionnaires sent in the first wave, 65 were returned (60 usable), whereas 74 were returned from the second wave (73 were usable). Non-response analysis was also conducted to ensure that the study did not suffer from non-response error. Separate t-tests for the means were conducted for the instruments. No significant differences were found between the waves at the 0.05 significance level.

8. Results and Discussion

The following table (Table 1) displays the descriptive statistics with respect to the collected data.

| Table 1 – Descriptive Statistics |
|----------------------------------|
| Variable                        | Mean  | Std. Dev. | Minimum | Maximum |
|---------------------------------|-------|-----------|---------|---------|
| Age (in months)                 | 123.53| 50.52     | 42      | 265     |
| Trust                           | 2.82  | 0.95      | 1.00    | 5.38    |
| Commitment                      | 2.78  | 0.97      | 1.00    | 5.33    |
| Learning Effectiveness          | 3.94= | 1.23      | 1.50    | 6.00    |

Note. N=133.

After data collection and coding the data, a correlation analysis provided the relationship between the criterion variable – learning effectiveness and the predictors – trust, commitment, and age of the IJV.

| Table 2 – Pearson Product-Moment Correlation |
|----------------------------------------------|
| Age                                         | Trust | Commit. | Learning |
|----------------------------------------------|-------|---------|----------|
| Age                                         | 1.000 | -0.103  | -0.180*  | 0.297*** |
| Trust                                       | 1.000 | 0.657** | -0.379***|
| Commit.                                     |       |         | -0.378***|
| Learning                                    |       |         | 1.000    |

Note. N=133. *p < .05. **p < .01. ***p < .001.

Learning effectiveness is related to trust, commitment, and age of the IJV at the 0.001 level. The relationship between trust and commitment and learning effectiveness is positive despite the direction suggested by Table 2. The negative direction of the
relationships is due to the response categories on the questionnaire (for example, a low score on trust suggests trust between the partners, whereas a low score on learning denotes low level of learning effectiveness). Therefore, a low score on trust, commitment, should relate to a high score on learning effectiveness (learning does/did take place). The above findings (correlation results) support $H_1$ and $H_2$. There is also a strong positive relationship between trust and commitment, significant at the 0.001 level. Age of the IJV is related to commitment, but not to trust. Age is also related to learning effectiveness.

As the joint ventures grew in age, there seemed to be more learning. One respondent stated that people on both sides of the IJV need to have “the patience to understand that two cultures cannot make a success of the JV overnight”. The average age of a joint venture in this study was 10 years, which suggested that these joint ventures have been successful in maintaining their good relations. This finding is evidenced by the relationship between commitment and age of the IJV, which suggests that as the joint ventures become mature, the commitment to the IJV increases. This finding supports other research (Cullen et al., 1995, 91; Madhok 1995, 117) that commitment is important for the survival of the joint venture. A surprising non-finding was the relationship between trust and age of the IJV. This non-finding refutes Chen and Boggs’ (1998, 111) study where trust and long term cooperation were related positively. However, the non-finding of the relationship between trust and age of the IJV is probably specific to this sample, since literature has consistently shown a positive relationship between trust and longevity.

9. Conclusion

International Joint Ventures are risky ventures due to their high rate of failure. It is the responsibility of both partners to make an effort to make the IJV a success. After the IJV is formed, efforts should be made to create an atmosphere of trust by open lines of communication in order to ensure successful operation of the IJV. One of the respondents commented that “frequent exchange of staff between both partners may contribute to learning in IJVs.” This may increase the commitment between the partners and increase the longevity of the IJV, which results in greater learning between partners. This study shows that once an IJV gets over the hurdle of being in operation for the first few years, the chances of success increase. With longevity also comes increasing commitments on both sides, which necessitate the survival of the IJV. Duration of joint ventures is also inversely related to structural changes by ownership. In other
words, joint ventures that stay operational for longer periods of time experience less changes to their structure even if they are low-performing (Song and Peng 2015, 171). This shows that parent owners of longer-duration joint venture display higher levels of patience when it comes to making sudden operational changes to the venture.

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