THE EFFECTS OF PSYCHIC DISTANCE AND INTER-PARTNER FIT ON THE PERFORMANCE OF INTERNATIONAL JOINT VENTURES

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ABSTRACT

The impact of psychic distance stimuli and inter-partner fit on the performance of international joint ventures (IJVs) has not been adequately explored in the case of emerging economies. Another lacuna in literature is the analysis of the performance of IJVs in regard to the new normal business landscape. This study analyses the impact of psychic distances stimuli and inter-partner fit on the performance of IJVs in the context of new normal business landscape. The secondary data of 122 IJVs headquartered in India with G7 nations is empirically tested. The study indicates that out of all psychic distances, administrative and economic distances significantly affect the performance of IJVs.

Keywords: psychic distance stimuli, inter-partner fit, international joint ventures, new normal, performance

INTRODUCTION

The business landscape has fundamentally changed over the last decade, especially resulting from the 2008 global financial crisis (Davis, 2009; Hamid, Everett, & O’Kane, 2018; Ömür, Tunç, & Düren, 2012). The post-crisis period is delineated by the slow growth rate of developed economies, low productivity, the large number of unemployed people, rapid technological advancement, uncertainties,
and shorter product lifecycle. Research has viewed this cyclical trend as the “new normal” (El-Erian, 2010; Hitt, Li, & Xu, 2016). These changes affect all the actors in an economy including companies and business landscape (Ömür et al., 2012). Presumably, companies should proactively change their strategies and mental make-up in order to succeed in the new normal business landscape (Ömür et al., 2012). Therefore, companies should strive to make strategic alliances, thereby sharing their competencies to succeed in the new normal world (Davis, 2009; Li & Wang, 2019). Different forms of alliances can be formed; however, research has empirically found that the most extensively used alliance by organisations over the past decade is the international joint ventures (IJVs) (Barmeyer & Davoine, 2019). In the new, the normal business landscape, organisations seeking to achieve high growth rate will prefer emerging economies for making IJVs (Ahsan & Fernhaber, 2019).

According to various studies, IJVs gains competitive advantage by letting companies leverage on their partner’s technology, capabilities, technical skills, resources, and also sharing risks (Barney, 1991; Culpan, 2008; Hamel et al., 1989; Lu & Beamish, 2001). Although IJVs has been shown to have innumerable advantages, its instability rate is extremely high (Lowen & Pope, 2008). Therefore, this study tries to understand the factors affecting the performance of IJVs. A plethora of studies have been done on the performance of IJVs especially in the developed economies (Alcantara & Hoshino, 2012; Geringer & Herbert, 1991; Glaister & Buckley, 1998; Ren, Gray, & Kim, 2009; Zhao, Ma, & Yang, 2017), but little research has been done on the subject in regard to the emerging economies. According to past literature, various perspectives of performance in regard to IJVs have been studied. Such perspectives are commitment according to Glaister and Buckley (1998) and Nakos and Brouthers (2008), bargaining power (Awadzi, 1987), conflict (Demirbag & Mirza, 2000; Li & Hambrick, 2005), justice (Luo, 2005), cultural distance (Gomez-Mejia & Palich, 1997; Hutzschenreuter, Kleindienst, & Lange, 2014; Kogut & Singh, 1988; Yan & Duan, 2003), and trust (Nakos & Brouthers, 2008). However, the impact psychic distance stimuli have on the performance of IJVs has not been thoroughly explored. Since the origin of international business, distance has become an inevitable barrier in the collection, analysis, and interpretation of data in regard to the foreign market (Håkanson & Ambos, 2010). Literature has connoted that with the advancement of technology, these frictions imposed by distance have now reduced or even disappeared (Cairncross, 1997; Head, Li, & Minondo, 2018). Recent researchers, however, have articulated that distance still exists in the domain of international business (Kostova & Marano, 2019; Fatehi & Choi, 2019). The world is “semi-globalised” and therefore, distance, which is viewed in terms of culture, geographic, and
administrative, economic distances still matter (Ghemawat, 2001). In light of this, this study aims at providing a comprehensive empirical analysis in regard to the impact that psychic distance stimuli have on the performance of IJVs within the context of the new normal business landscape. Besides, previous researchers have explored the connection that exists between inter-partner fit and IJVs’ performance (Ren et al., 2009; Yan & Duan, 2003). Inter-partner fit has been studied to determine the level to which partners realise projected synergies critical to a transaction’s success. Different perspectives of inter-partner fit have been articulated in literature such as interfirm diversity (Parkhe, 1991), strategic asymmetry (Harrigan, 1988), strategic fit (Jemison & Sitkin, 1986), and partners characteristics (Geringer & Herbert, 1989). Prior work either failed to provide conceptual clarity or produced inconsistent findings of inter-partner fit as a construct, making it difficult to reconcile it (Yan & Duan, 2003).

Accordingly, this study aims to fill the gaps that exist in the past literature through an examination of the impact of inter-partner fit and psychic distance stimuli on IJVs’ performance in terms of size asymmetry, resource complementarity, goal-congruency, and competitive overlap in the context of new normal landscape. The researcher in this study reviewed past literature in relation to the new normal business landscape and factors impacting the performance of IJVs. We subsequently gathered a sample of 122 IJVs headquartered in India with G7 economies from 2009–2017 with the aim of finding out the impact of psychic distance stimuli and inter-partner fit on the performance of IJVs. Further, the study highlights the implications and limitations of the study, as well as, points out to the areas of future research.

THEORETICAL DEVELOPMENT AND HYPOTHESES

To determine the effect of psychic distance stimuli and inter-partner fit in regard to the performance of IJVs in the context of the new normal global business landscape, the literature in this study has been reviewed from two perspectives: new normal business landscape and factors impacting the performance of IJVs.

New Normal

The current business landscape is fundamentally different from the 2008 global financial crisis. Literature advocates that the global financial crisis has its own repercussions (Lane & Milesi-Ferretti, 2018; Melville & Reese, 2009; Ömür et al., 2012). Currently, the world is staring at the restructuring of the business cycle and the economic order. In the midst of these changes, some businesses are trying to
survive and others are peering through the cloud of uncertainty on how to position themselves in this new world, which is all about the low growth of developed economies, falling productivity, high unemployment, and falling trade (Beck, 2018). These challenges are not temporary, but they are ongoing challenges, which require structural changes in doing business (Falkenberg & Ashurst, 2010; Nachum & Zaheer, 2005).

The business environment is changing due to the emergence of this new business landscape. The “New Normal” – something, which was earlier uncommon has begun to become more common (El-Erian, 2010; Hitt et al., 2016). The expression “new normal” was first postulated by Mohamed El-Erian of Pacific Investment Management Company (PIMCO) in 2009 to recognise the changes in the post-crisis period. Literature advocates that the economic readjustment will be more complex and uncertain as compared to financial readjustment (El-Erian, 2010).

One of the main elements of the new normal is the change in the approach to managing the situation. Organisations have to focus on what has changed and what has not changed for their industry, and in response, develop the competencies required to succeed (Ömür et al., 2012). Another focal characteristic of the new normal is the increased role of the government. The main agenda is to force companies to indulge in corporate governance, which means a surge of corporate transparency and an increase in government investment (Melville & Reese, 2009).

In such a complex scenario, companies are compelled to focus on sustainable and long-term growth. They have to update their strategies and mental make-up to succeed. “To remain competitive, companies must learn to harness their strengths, focus on key competencies and stick to their core business” (Melville & Reese, 2009). Thus, organisations must understand how the new normal conditions unfolding in different domains and different locations may have a diverse impact on their performance and survival (Tan & Mohd Nasurdin, 2010).

**Performance of IJVs**

Research has shown that the performance of IJVs is the most critical concern about IJVs in regard to the new normal business landscape. As such, the performance of IJVs is viewed as a critical concern mainly due to two main reasons: the imposed cost of failure and the social cost of failure. The economic environments on which these IJVs operate have to bear these costs (Lee & Beamish, 1995). The measurement for IJVs performance is a debatable area (Das & Teng, 2003; Geringer & Herbert, 1991; Hutzschenreuter et al., 2014; Osland & Cavusgil, 1996; Zhao et al., 2017). One major measurement aspect that can be utilised to measure
the performance of IJVs is the use of an appropriate indicator. Various scholars have used different yardsticks like financial indicators to evaluate the performance of IJVs such as profits, growth, or sales (Lu & Beamish, 2001, 2004) while others include survival as shown by Geringer and Herbert (1991) and Killing (1983), and its duration stated by Harrigan (1988) and Kogut (1988).

In this study, financial indicator-return on assets (ROA) is utilised in the measurement of the performance of IJVs. The financial measure is both used independently as the yardstick, as well as, used to validate subjective measure (Nasurdin, Jantan, & Fadzil, 2004; Dhir, Ongsakul, & Batra, 2018). There is also a high correlation between the performance of IJVs and ROA and return on sales (ROS) (Choi & Beamish, 2004).

Determinants of Performance of IJVs

Psychic distance stimuli

Psychic distance stimuli as a concept were introduced by Beckerman (1956) and this concept has since gained popularity after it was explored at the University of Uppsala (Geringer & Herbert, 1991). Over time, psychic distance has emerged as the most researched concept in regard to international business. It has been studied from different perspectives entry mode strategies, subsidiary performance, and capability transfer. Psychic distance has been defined by several scholars. We adopted the definition given by Sousa and Bradley (2006, p. 51) where psychic distance is “the individual perception of the differences between the country of origin and the foreign country”. This definition includes the impression of perception and distance and both manifest the nature of this concept (Sousa & Bradley, 2006). According to various studies, psychic distance stimuli are used as a synonym of culture distance; however, many scholars including Pankaj Ghemawat (2010) have posited that it is not simply cultural distance, but incorporates other perceptions too. This redefinition process of psychic distance continued and has led to a better understanding of the concept.

Today’s world is “semi-globalized” and therefore, borders continue to matter (Ghemawat, 2010). Thus, apart from the cultural distance, distance comprises of other dimensions, which are geographic distance, administrative distance, and economic distance. These four dimensions form the CAGE (cultural, administrative, geographic, and economic) framework, help to identify the differences between countries and provide the basis for such differences (Ghemawat, 2010). However, very little work has been done in the past to analyse the effects of these four dimensions of distance (Karunaratna & Dow, 2006).
Cultural distance

Cultural distance is an extremely complex concept. This concept has gained popularity owing to Hofstede’s (1980) work, and it is currently expansively used in international business research. According to Hofstede (1980), culture could be viewed as “the collective programming of the mind which distinguishes the members of one human group from another”.

As noted by Weber, Shenkar, and Raveh (1996), corporate and national culture, though related, are different constructs. The most common method used to measure national cultural distance is the Hofstede national cultural distance (Hofstede, 1980), which bases its computation of culture scores on the six Hofstede dimensions: individualism, power distance, uncertainty avoidance, masculinity, long-term orientation, and indulgence vs. restraint (which was added later). Extant literature suggests that cultural fit affects the performance of alliances by allowing multiculturalism and preventing too much control. Therefore, such firms perform better compared to less permissive firms (Chatterjee, Lubatkin, Schweiger, & Weber, 1992; Dhir, 2017; Li, 2003).

Cultural distance enhances the difficulties that the companies face in identifying and interpreting the signals (Damanpour, Devece, Chen, & Pothukuchi, 2012; Evans, Treadgold, & Mavondo, 2000; Håkanson & Ambos, 2010; Hamilton, Dana, & Benfell, 2008). Therefore, a cost is incurred because of misperceiving or misinterpreting signals like customers preferences, which can likely affect the performance of the company. Hereby, it is hypothesised that:

H1: Cultural distance and IJVs performance are negatively related in the new normal business landscape.

Administrative distance

Administrative distance is extracted from the institutional theory. This theory is of paramount interest to IJVs as an institutional environment of a firm is considered to be the focal factor, which determines the firm structure and firm behaviour (Scott, 1995). The regulatory distance consists of legal, regulations and government policies (Scott, 1995). Upcoming economies are marked by informalities and immature government policies and regulations, indicating transparency, intellectual property rights, corporate governance, and market regulations may not be reliable and mature as compared to developed economies (Lasserre, 1999; Lin, Chen, & Lin, 2014; Marquis & Raynard, 2015; Marquis & Zhang, 2011). Moreover, research shows that governments in developing economies are susceptible to internal
issues and external tensions, a fact that makes it a risk for a business to operate in these economies (Hiatt & Wesley, 2014). Prior literature also connotes that these factors bear more impact in regard to the performance of IJVs in emerging markets compared to more mature markets (Meyer, Mudambi, & Narula, 2011). This is because institutional immaturity has been seen to raise the transaction cost and risk level in emerging economies (Child, Chung, & Davies, 2003; Meyer et al., 2011). Immature or an unstable governance system leads to an increased level of uncertainty and risks for working in the respective country (Kaufmann, Kraay, & Mastruzzi, 2009). As pointed out by Nakos and Brouthers (2008), different institutional contexts in different national environments will affect the ability of the company to exploit and divergently enhance its capabilities. Hence, it is hypothesised that:

H2: Administrative distance and IJVs performance are negatively related in the new normal business landscape.

**Geographic distance**

This type of distance can be viewed as being separated physically by borders between countries. Geographic distance is an index of trade resistance due to its affiliation with the cost of transportation and communication (Beckerman, 1956). As pointed by out Srivastava and Green (1986), the geographical distance can negatively affect the intensity of trade between different countries. However, technological advancements help in reducing trade resistances like the cost of transportation and communication, but the physical distance remains a critical obstacle in trade globally (Håkanson & Ambos, 2010; Hutzschenreuter et al., 2014). Extant literature has found the linkage between distance and shipping costs and trade (Clark, Dollar, & Micco, 2004). Regarding this, geographic distance leads to an increase in the complexities, which make it difficult for a firm to successfully coordinate the operations of organisational units. Therefore, it is hypothesised that:

H3: Geographical distance and IJVs performance are negatively related in the new normal business landscape.

**Economic distance**

This is an important concept in international business as it acknowledges the purchasing power, gross domestic product (GDP) or transportation and communication infrastructure disparities (Hutzschenreuter et al., 2014). As such, these are critical disparities between developing and developed economies. For instance, developing economies have been seen to have a higher proportion of
manufacturing, labour-intensive, as well as large-scale heavy industry sectors (Marquis & Raynard, 2015; Murrell & Wang, 1993; Wang, 2006). However, research shows that the developed economies have a moderately low GDP growth rate and are marked by a high GDP per capita. This posits that such economies have reached industrial development maturity state. These differences lead to increased risks and uncertainties, which in turn amplify the costs incurred in operating a business in other economies. The prior literature has shown that business models can be adjusted to the countries with low economic distance. Therefore, the higher the economic distance, the more negatively it will impact the performance of businesses. In light of this, it is hypothesised that:

H4: Economic distance and IJVs performance are negatively related in the new normal business landscape.

**Inter-partner fit**

Extant literature has pointed out the relationship between inter-partner fit and IJVs performance. Inter-partner fit determines to what extent merged organisation realises anticipated synergies critical to transactional success. There are different notions of inter-partner fit, which have been explored – strategic symmetry, competitive overlap, and resource complementarity among others (Beamish, 1988; Hill & Hellriegel, 1994; Inkpen, 2000).

**Size asymmetry**

Size asymmetry is a relatively important notion of inter-partner-fit. Research shows that there is a negative connection between size asymmetry of parent firms and the performance of IJVs (Atolia, Gibson, & Marquis, 2018; Osland & Cavusgil, 1996; Sim & Ali, 2000). Transaction cost theory explains the linkage between the size of the parent company and performance. Prior research has noted that asymmetry in size of the partners’ firm will negatively impact stability as there will be a mismatch in the strategic mission, culture, and bureaucracy. This will ultimately affect the performance of IJV (Dhir & Mital, 2013; Li & Hambrick, 2005).

H5: Size asymmetry of parent firms and IJVs performance are negatively related in the new normal business landscape.
**Competitive overlap**

Competitive overlap is another important perspective of inter-partner-fit. Previous research has shown the connection between competitive overlap and the performance of IJVs. As such, the IJVs between competitors would likely make parent companies behave in an opportunistic manner by maximising personal interests at the expense of the other firm (Oxley & Sampson, 2004; Park & Ungson, 1997; Sengul, 2018).

As noted by Inkpen (2000), if the parent firms have a high degree of competitive overlap, then there would be a limited incentive for the firms to share their knowledge. As noted by Park and Ungson (1997), the parent company should shelve plans to collaborate with competitors.

**H6:** Competitive overlap and IJVs performance are negatively related in the new normal business landscape.

This study constitutes eight independent variables: cultural distance, administrative distance, geographic distance, economic distance, size asymmetry, competitive overlap, goal alignment, and resource complementarity, as shown in Figure 1.

![Conceptual framework](image-url)  
*Figure 1. Conceptual framework*
METHODS

Sample and Data Collection

The analysis of this study is based on the collection of secondary data. IJVs headquartered in India are considered. The sampling criteria for selecting IJVs headquartered in India are as follows. IJVs formed with G7 economies—Canada, France, Japan, Italy, Germany, the United States, and the United Kingdom—are considered; IJVs formed between 2008 and 2016; and IJVs involving only two partners. Data of 314 IJVs formed with G7 economies was obtained out of which 192 were dropped for non-availability of complete data for analysis, leaving 122 samples for analysis. The data consisted of IJVs from diverse industries including manufacturing, retail and wholesale, automotive, defence, investment, petroleum services, and telecommunication as shown in Table 1.

Table 1
Classification of types of industry

| Industry            | Count | Percentage |
|---------------------|-------|------------|
| Automotive          | 15    | 12.3       |
| Defence             | 8     | 6.5        |
| Investment          | 9     | 7.3        |
| Manufacturing       | 43    | 35.2       |
| Petroleum services  | 8     | 6.5        |
| Retail and wholesale| 18    | 14.8       |
| Telecommunication   | 21    | 17.2       |
| **Total**           | **122** | **100.0** |

Variables and Measures

Dependent variable

In this study, the performance of IJVs is considered as the dependent variable. To measure the performance, ROA has been used. Literature has widely accepted ROA as an indicator of a firm’s performance (Arregle, Toyah, Hitt, & Beamish, 2016; Dhir & Dhir, 2018; Gomez-Mejia & Palich, 1997; Hutzschenreuter et al., 2014; Lu & Beamish, 2001, 2004). ROA is used to measure the efficiency with which output is produced by a firm. It is well-suited for analysing the performance of the firm’s operations (Gomez-Mejia & Palich, 1997). The information about ROA is obtained from “Ace Equity” database (http://www.aceanalyser.com/).
Independent variables

This study constitutes eight independent variables: cultural distance, administrative distance, geographic distance, economic distance, size asymmetry, competitive overlap, goal alignment, and resource complementarity. In the extant literature, these variables have been extensively studied using primary data. However, for this study, secondary data is considered and different ways to measure each of these variables are identified. First, for culture distance, the method which is developed by Kogut and Singh (1988) is adopted. This index is widely used to calculate the compound measures of cultural distance between any two countries. This index is applied by many researchers (Sousa & Bradley, 2006) for calculating the index Hofstede’s cultural dimensions based on power distance, individualism, masculinity, uncertainty avoidance, and long-term orientation. We have used these five attributes to calculate the cultural index.

\[ CD_{jp} = \sum_{i=1}^{5} \left[ \frac{(\mu_j - \mu_i)^2}{\sigma_j} \right] / 5 \]

Administrative distance

For measuring administrative/governance distance, the indicators given by the World Bank are used (Beugelsdijk, Kostova, & Roth, 2017; Kogut & Singh, 1988; Sousa & Bradley, 2006). The six worldwide governance indicators are rule of law, regulatory quality, control of corruption, political stability and absence of violence/terrorism, voice and accountability, and government effectiveness. These are the six indicators which provide a comprehensive view of the administrative differences between countries and are widely used in international business research (Kaufmann et al., 2009). To calculate the composite index, Kogut and Singh’s index has been used.

Geographic distance

For the purpose of measuring the geographical distance between two countries, distance in kilometers between the centres of both the countries is measured (Håkanson & Ambos, 2010; Rao, Pearce, & Xin, 2005).
Economic distance

This study measures the economic distance between countries on the basis of GDP per capita. The information of GDP per capita is obtained from the World Development Indicator database (https://datacatalog.worldbank.org/dataset/world-development-indicators), which is a prominent database provided by the World Bank. This measure is widely accepted to gauge the economic differences between countries (Kraus, Ambos, Eggers, & Cesinger, 2015).

Size asymmetry

The size of partners is measured by the number of employees working in the parent firms of the IJVs (Dow, 2006; Håkanson & Ambos, 2010; Hutzschenreuter et al., 2014). The difference in the number of employees depicts the size asymmetry of the partners (Crutchley, Guo, & Hansen, 1991). The information regarding the number of employees is extracted from the Securities Data Company (SDC) platinum.

Competitive overlap

Competitive overlap is measured through the standard industrial classification (SIC) code overlap and difference. SIC codes of the parent firms of IJVs are extracted from SDC platinum and annual reports (Nisar, Boateng, & Wu, 2017).

Control variables

We controlled for factors other than the mentioned above that are expected to influence the performance of IJVs. First, we controlled the age of IJVs. Age of IJV is measured by the number of years since the IJVs had been established (Cuypers, Ertug, Reuer, & Bensaou, 2017). Secondly, the type of industry is controlled for by analysis (Cuypers et al., 2017; Sim & Ali, 2000).

Data Analysis

In this study to examine the hypothesised relationships, correlation and regression analysis is used. Multiple regression is used as it is helpful when there are several independent variables that are not strongly interrelated. It is a statistical technique that can be used to estimate the single dependent variable from the data of two or more independent variables. Our interest is to identify the impact of these variables on the measure of performance. Stata 14 statistics software package has been used to run multiple regression analysis and test the hypotheses.
FINDINGS

Table 2 reports correlation for all variables along with its significance in the order hypothesised. For the purpose of checking multicollinearity, we have used the variance of inflation factor (VIF) test. The mean VIF score is 1.95, far below the cutoff point of 10.

Table 3 shows the result of multiple regression. It has found out that the coefficient of cultural distance is opposite to what is hypothesised but significant. The coefficient of administrative distance negatively impacts the performance of IJVs and is significant with \(-5.49; p < 0.05\). Hence, support is given for the hypothesis that administrative distance has a negative effect on the performance of IJVs (H2). H4 states that the economic distance will negatively impact the performance of IJVs with statistically significance \((\beta = -2.96; p < 0.01)\). H5 posits that the more the competitive overlap between the parents of IJVs, the worse will be the performance. The result shows that the competitive overlap is significant with a negative coefficient \((\beta = -0.002; p < 0.05)\). This shows that competitive overlap inversely affects the performance of IJVs. Contrary to expectations, geographic distance is not significantly related to performance \((p > 0.05)\), thus indicates that there is a lack of support for the hypothesis. Size asymmetry is hypothesised to negatively impact the performance of IJVs, however, on the contrary, it is insignificant.

DISCUSSIONS AND CONTRIBUTIONS

Recently, scholarly research on IJVs has significantly articulated the need for extensive research in regard to factors affecting the performance of IJVs in the context of the new normal business landscape. This research has empirically examined the effect psychic distance stimuli and inter-partner fit have on the performance of IJVs headquartered in emerging economies such as India. The findings in this empirical research support the fundamental argument that when evaluating the IJVs’ performance in the new normal landscape, psychic distance stimuli and inter-partner fit need to be considered. Extant literature has argued that psychic distance stimuli lead to frictions in international business (Hagedoorn, 1993). Therefore, we have argued that it will impact the performance of IJVs negatively. Literature has taken into consideration the effect of one specific distance; however, this study takes into consideration multidimensional distance stimuli – cultural, administrative, geographic, and economic. It gives a comprehensive view of psychic distance stimuli in regard to the performance of
Table 2
Descriptive statistics and correlation coefficients

| Variables         | Mean  | SD    | 1     | 2     | 3     | 4     | 5     | 6     | 7     | 8     | 9     |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1. ROA            | -0.56 | 1.15  | 1     |       |       |       |       |       |       |       |       |
| 2. Geographic     | 8943.18 | 294.13 | 0.08  | -0.03 | 1     |       |       |       |       |       |       |
| distance          |       |       |       |       |       |       |       |       |       |       |       |
| 3. Cultural       | 2.62  | 0.05  | 0.08  | -0.03 | 1     |       |       |       |       |       |       |
| distance          |       |       |       |       |       |       |       |       |       |       |       |
| 4. Administrative | 2.67  | 0.04  | -0.27 | 0.06  | -0.08 | 1     |       |       |       |       |       |
| distance          |       |       |       |       |       |       |       |       |       |       |       |
| 5. Economic       | 7.77  | 0.3   | -0.13 | 0.85  | 0.16  | 0.16  | 1     |       |       |       |       |
| distance          |       |       |       |       |       |       |       |       |       |       |       |
| 6. Competitive    | 725.79 | 120.6 | -0.14 | 0.09  | -0.09 | -0.03 | 0.02  | 1     |       |       |       |
| overlap            |       |       |       |       |       |       |       |       |       |       |       |
| 7. Size asymmetry | 32634.68 | 6976.09 | -0.15 | -0.06 | 0.04  | -0.10 | 0.03  | 0.12  | 1     |       |       |
| overlap            |       |       |       |       |       |       |       |       |       |       |       |
| 8. Age            | 4.93  | 0.22  | 0.05  | 0     | 0.06  | 0.07  | 0     | 0.08  | -0.1  | 1     |       |
| overlap            |       |       |       |       |       |       |       |       |       |       |       |
| 9. Industry type  | 8.19  | 0.73  | 0.06  | 0.12  | 0.02  | 0.01* | 0.07**| -0.10* | 0.03  | -0.18 | 1     |
| overlap            |       |       |       |       |       |       |       |       |       |       |       |

Note: significance at *p < 0.05 and **p < 0.01
IJVs. As such, the research provides a review of the effect of different psychic distance stimuli on IJVs’ performance and therefore, contributes to the current “new normal” debate in a number of ways.

Although the cultural distance is positioned as the major factor affecting the performance of IJVs, the hypothesis is the opposite of the calculated coefficient. In the extant literature, there exist mixed results; some results have reported the negative sign coefficient (Shenkar, Luo, & Yeheskel, 2008) while the other group has reported a positive relationship (Brouthers, 2002). The results have shown that cultural distance can sometimes favourably affect the performance of IJVs. This implies that firms should not shy away from operating in unfamiliar cultures. Nevertheless, it has been shown that geographic distance has no significant impact on the IJVs’ performance. The geographic distance may not hamper performance because of the advancement of communication and transportation facilities.

Interestingly, the results show that administrative or governance distance significantly affects the performance of IJVs. The more complex the governance of a country is, the more difficult it is to operate in that country. However, the study was unable to point at significant effect resulting from size asymmetry.

Competitive overlap has a negative coefficient; it is significant with a value of $p < 0.05$. IJVs portray a unique setting where companies have to deal with external challenges as well as deal with their partners within the IJVs in ensuring the other firm does not behave in an opportunistic manner. Therefore, the psychic distance

### Table 3

| Variables                  | Beta | $t$  |
|----------------------------|------|------|
| Geographic distance        | 0    | 4.58 |
| Cultural distance          | 4.04 | 2.21 |
| Administrative distance    | -5.49| -2.41*|
| Economic distance          | -2.96| -2.41*|
| Competitive overlap        | -0.01| -2.41*|
| Size asymmetry             | 0    | -1.05|
| Age                       | 0.31 | 0.72 |
| Industry type              | 0.01 | 0.11 |
| R square                   | 0.28 |      |
| Adjusted R                | 0.23 |      |
| F                          | 5.40*|      |

*Note: significance at $p < 0.05$*
and inter-partner fit have been and remain important predictors of the performance of IJVs. The examination of these two main factors will provide a new perspective on IJVs’ performance to an academician. The present study contributes to the distance literature by showing apart from the cultural distance, other distances such as administrative and economic distances affect the IJVs’ performance. Additionally, the effects of different distances are compared and they help to know, which distance is comparatively more significant. CAGE framework, developed by Ghemawat (2010), provides a valid and comprehensive way of understanding the different perspectives of psychic distance stimuli. Despite the rigour and comprehensiveness of this framework, to our knowledge, not much significant work has been done using the same framework. Lastly, to our knowledge, this study is the first work, which has evaluated the performance of IJVs headquartered in India with G7 economies.

Implications

The findings of this study will help managers in the partner selection procedure. Psychic distance stimuli with larger effects have been discussed and this will help managers to understand, which distances one has to pay more attention to. This will help them to mitigate the hindrances in doing international business. Additionally, this study will be of use to policymakers by helping them to understand the best avenues for IJVs formation. For example, “Make in India” campaign of the Government of India has motivated firms to enter into new business domains. Similarly, the new goods and services tax (GST) introduction has made the administrative environment more conducive; this has reduced the governance distance and attracted firms abroad to operate in India.

CONCLUSION

This work has argued and demonstrated that psychic distance stimuli in the new normal business context affect the performance of IJVs significantly. A hallmark of psychic distance stimuli in emerging economies is the simultaneous coexistence of political power distance and market forces. The contingency effects of competitive overlap further demonstrate their impact on the performance of IJVs. Overall, this study makes and substantiates the case that economic and administrative distances matter in the performance of IJVs.
Limitations and Future Research Directions

Despite the innumerable strengths of this research, there is a presence of limitations that the future research has to address. One of the limitations is that this study is based on secondary data pertaining to IJVs headquartered in India. This makes it hard to generalise these results to other upcoming economies. Further, only psychic distance stimuli and inter-partner fit have been identified to influence performance in the context of new normal business landscape. One cannot dispute that other unforeseen factors can affect the performance of IJVs. Second is the issue of generalisability of the findings. IJVs formed with the host country, India, and G7 countries are taken into consideration. Therefore, to be able to generalise the findings of this study, other emerging economies must be researched.

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