

# International Joint Ventures: Culture and Performance

**The present study focuses on studying the perception of joint ventures, which have prevailed in recent years due to globalization, and in an effort to shed some light on the contribution of organizational and national culture to the performance of international joint ventures in which Israeli firms take part. Organizational culture is a collectively internalized deeply embedded set of beliefs, expectations and assumptions that influence and guide thinking and behavior among joint venture members. Contradicting findings continue to be confusing regarding the nature of the relationship between partners' cultural differences and joint venture performance.**

**T**hree major hypotheses were tested in this study in an effort to support the differing opinions between researchers: (1) Difference in organizational culture is the reason for performance gaps in joint ventures rather than national culture differences; (2) The influence of cultural difference on the performance of international joint ventures is indirect, but highly influenced by the level of trust between its partners; (3) The extent of acculturation between partners has a positive influence on trust formation between the partners and as a result, on the joint venture performance.

It has been found that the performances of joint ventures, whose basis of operation is in Israel, are influenced by the organizational culture differences, driven by trust between partners as a mediating variable. The extent of acculturation between partners was found to have a positive influence on trust, which is a major derivate for forming more positive and better joint ventures. The study has also found that national culture differences have no influence on joint venture performance.

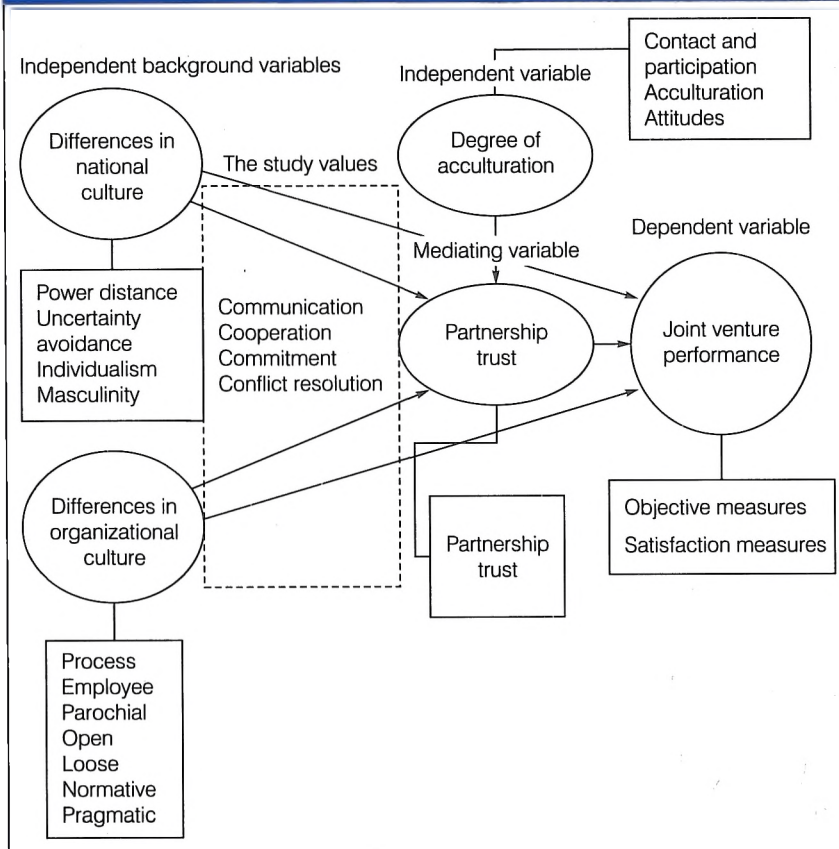
## INTRODUCTION

The importance of the present study lies in presenting and analyzing the behavior of the partners in joint ventures and its influence on the performance of the business organizations, while presenting the cultural variance between the partners in the joint ventures as a major factor leading to their failure in the past decade (Alter and Hage, 1993; Blodgett, 1992; Geringer and Herbert, 1991; Harrigan, 1985; Porter and Fuller, 1986). This study is an attempt to clarify a phenomenon that continues to grow in its prominence but has not yet been well researched into (Lane and Beamish, 1990; Madhok, 1995; Mohr and Spekman, 1994; Ring and Van de Ven, 1994).

The joint venture performance in this study refers to the level of the partners' satisfaction on three major subjects and five variables and performance criteria reflecting the performance of the joint venture.

In this framework, the study focused theoretically and empirically on three aspects of cultural variance in joint ventures:

**Figure 1**  
**The Influence of Cultural Differences on the Performance of Cross-Cultural Joint Ventures**



- Variance in national culture vs. variance in organizational culture and its influence on the performance by joint ventures.
- The importance of trust in joint ventures and its influence on business performance.
- The influence of the acculturation process on the trust between partners and, as a consequence, on the organization's performance.

Due to the contradictions and disagreements between researchers regarding the proper way to reduce cultural variance between partners in a joint venture, the first research question is: Does cultural variance in joint ventures influence the business organization? If so, what cultural, organizational and national dimensions have some measure of influence on the organization?

The second research question reflected this issue and dealt with the influence of trust, as a mediating factor, on the joint venture's performance.

The third question deals with the influence of acculturation and its positive relation with the organiza-

tion's performance. Does the acculturation process, which takes place during joint venture, reflect also the building of trust, and, as a result, influences business performance?

## THE STUDY MODEL

Theoretically, the study reflects the importance of cultural variance in international and organizational levels, focusing on mediating variables such as trust and acculturation by the partners as variables that influence performance behavior (see research model flow chart in Figure 1).

## THE HYPOTHESES

Based on the literature review, the study hypotheses focus on the influence of cultural differences at the international and organizational level in joint ventures and their business performance.

The research model suggested here, dealing with the influence of

cultural variance on the performance of joint ventures in Israel, reflects an innovative approach, especially in the variables that reflect the potential difference in the different cultures, in an attempt to present a wide basis, as much as possible, for the decision making process in joint ventures and more effective performance.

The research hypotheses are derived from the research questions and from the extensive review of literature.

First hypothesis: Cultural-national variance has an adverse influence on the joint venture's performance.

Second hypothesis: Organizational-cultural difference has an adverse influence on the joint venture performance.

Third hypothesis: Cultural-organizational difference influences the joint venture performance more than cultural-national difference.

Fourth hypothesis: The existence of trust among partners in a joint venture carries considerable and essential weight for better performance.

Fifth hypothesis: National culture differences adversely influence joint venture performance through partnership trust as a mediating variable.

Sixth hypothesis: Organizational culture differences adversely influence joint venture performance through partnership trust as a mediating variable.

Seventh hypothesis: Degree of acculturation between partners positively influences partnership trust which in turn positively influences joint venture performance.

## **METHODOLOGY**

### ***The study design***

The study design was based on the compatibility of the methodological alternatives with the research methods and tools, the study population and sample, the sample size, sample duration, data infrastructure and variable control.

### **Data collection method**

Quantitative survey data obtained through questionnaires. The chosen quantitative method was intended to provide explanations, causal at times, for various phenomena that would predict future behavior between partners in joint ventures. The quantitative paradigm is suitable to the research and the questions it aims to answer, due to its suitability to a large sample size, and its ability to examine the relation between variables by isolating them and controlling them in an open and stress-free atmosphere.

### **The sample**

The data were collected from 63 Israeli firms which have joint ventures with foreign firms from 23 countries. These firms are active in 16 varied industries.

The study used a valid sampling method, which was tested by Geringer and Herbert (1991). According to them information collected from joint ventures through one partner in Israel will be valid and representative of the entire project performance. Based on findings of the authors mentioned above, data collection in the present study was executed through a questionnaire distributed to the sample population and collected during an interview with one of the Israeli partners in the project. From three of the 66 joint ventures taking part in the study, two participants were located, who answered the ques-

tionnaire at the level of the project manager and marketing manager, thus limiting the possibility of potential bias.

Sample size was calculated on the basis of desired effect size and statistical power, a method recommended by Hair, Anderson, Tatham and Black (1995). I considered a conservative effect size of  $r=0.3$ . With a power value of 0.8 and effect size of  $r=0.3$  at a significance level of .05, the appropriate sample size was calculated as 69 (Hair et al., 1995:11). Since the size of the sample is based on assumptions about power value and effect size, it can only be used as a guide, not a norm. The data collected consist of responses from 66 executives from 63 joint ventures, in accordance with the initial target size of 69.

### ***Questionnaire design and administration***

This section discusses the methods used for designing the questionnaire, pre-testing the questionnaire, personal interviewing, operationalization of the measures, reliability of the measures and construct validity of the measures. The questionnaire contains extra questions for future research, and their details are not discussed in this study.

### **Operational action of the measures**

The study questions required data from the variables described in Fig. 1.

### **Control of variables in the study**

Commitment towards participation was measured on a satisfaction scale wherein participants were asked to rate the commitment of the partners to joint venture on a scale of 1 to 5. All ventures where this measure scored less than 3 were omitted from the study. Partners' affiliation to the same industry was determined based on the respondents reporting an identical industry for both partners. The project's age was measured in months from the moment of the first interaction between the partners. The project's scope was measured by scopes of activity and annual sales average.

### **Reliability of the measures**

The reliability of the measurement tools is described as a balance between the characteristics of the measurement tools, their stability and level and the sample response (Rosenthal and Rosnow, 1991). The reliability of the measurement tools in this study was



Variable	Measurement scale	Alpha Cronbach
Joint venture performance	Object attainment importance	0.89
	Object attainment fulfillment	0.84
	Satisfaction importance	0.81
	Satisfaction fulfillment	0.92
Acculturation	Acculturation attitude in practice	0.52
	Ideal acculturation attitude	0.54
Organizational culture	Organizational culture	0.68
	The partner's organizational culture	0.74

based on the Alpha Cronbach method as detailed in the following table:

### Differences in National Culture

Reliability coefficients of national culture measures were not computed in this study since scores were not measured by this study but were adapted from Hofstede's (1980) study. The study findings reflect a clear trend emphasizing the importance of variables which favor differences pertaining to organizational culture, trust between the joint venture partners and the extent of common socialization of the partners over those pertaining to national culture to account for differences in joint venture performance.

The empirical findings confirm that:

The first hypothesis, stating that cultural-national variance has an adverse influence on joint venture performance was supported;

The second hypothesis, stating that organizational-cultural difference has an adverse influence on the joint venture performance was partially supported;

The third hypothesis, stating that cultural-organizational difference influences the joint venture performance more than cultural-national difference, was supported;

The fourth hypothesis, stating that the existence of trust among partners in a joint venture carries considerable and essential weight for better performance, was partially supported;

The fifth hypothesis, stating that national culture differences adversely influence joint venture performance through partnership trust as a mediating variable, was not supported.

The sixth hypothesis, stating that organizational culture differences adversely influence joint venture performance through partnership trust as a mediating variable, was partially supported.

The seventh hypothesis, stating that the degree of acculturation between partners positively influences partnership trust, which in turn positively influences joint venture performance, was supported.

The findings of this study corroborate Harrigan's (1985) observation that organizational culture differences may be more important to joint venture performance than national culture differences.

The findings also fall in line with several other studies that found that national culture differences did not have a significant influence on joint venture performance (Benito and Gripsrud, 1992; Park and Ungson, 1997). On the other hand, these findings fit the proposition of other studies that found that national culture differences have a significant difference (Barkema, Bell and Pennings, 1996; Davidson, 1980; Harrigan, 1985; Kogut and Singh, 1988).

A recently published study (McSweeney, 2002) has criticized the dimensions of national culture used in Hofstede's studies during the 1980's and especially the analysis regarding their relation to management perception and firms' performance. This criticism clearly implies that in order to understand the influence of national culture on management, we need to know more about the differences and cultural variety of each firm. Perceptions, interactions and agents of change in the national culture exert influence that differs from the dimensions coined by Hofstede two and a half decades ago. Instead of seeking an explanation for assumed national uniformity from the conceptual lacuna that is the essentialist notion of national culture, we need to engage with and use theories of action with can cope with change, power, variety, multiple influences – including the non-national – and the complexity and situational variability of the individual subject.

The finding that organizational culture differences influence venture performance more significantly than national culture differences can help interpret some of the contradiction in previous studies. In IJV's, partners not only belong to different countries but also to different organizations. This fact is highly significant, since the changes in the global business environment, and especially the open borders for business activities, have considerably limited the influence of national cultural differences on business

performance in joint venture, emphasizing the dimensions and values of organizational culture as change agents and their influence on the joint venture performance.

In light of these findings, this study testifies to the need to focus on individual dimensions of cultural differences rather than on macro measures (Kelley and Worthley, 1981) and ratifies the need to use appropriate culture measures, depending on the level of analysis (Hofstede, Bond and Luk, 1993).

Though the above explanation is relevant to studies that used nationally as a culture measure, this explanation is not applicable to studies that used the measure culture distant index, which is compiled from the dimensions of national culture alone.

Black and Mendenhall (1991) advance an anticipatory adjustment theory to explain why some cultural differences have less than expected influence. The essence of anticipatory adjustment is that individuals through vicarious learning make anticipatory adjustments to the new culture before they experience the new culture. This leads to less initial euphoria because of more realistic expectations and anticipatory behavioral adaptation. Since partners know each other's nationality in advance, willingness to adapt to each other's national cultures may lead to anticipatory adjustment. In such a situation, national culture differences do not cause the expected adverse influence. This argument is supported by the findings of Shenkar and Zeira (1992). When partners differ in uncertainty avoidance, there was no adverse impact on the communication.

Another possible explanation is presented by Chen, Chen and Meindl (1998), who examined the behavior of partners in business activities through the dimension of individualism vs. collectivism, while putting to the test the prevailing notion that collectivism is preferred to individualism. They developed a culturally contingent theory of cooperation to explain how societal normative values condition cooperation mechanisms and how cooperative behavior is moderated by these contingencies. In this perspective, individualists and collectivists exhibit cooperative behavior based on different cultural contingencies. This line of argument is supportive of a general proposition that mechanisms that facilitate communication, cooperation, commitment, and conflict resolution are culturally contingent, as found by several other studies.

Therefore, it is inadequate to study the role of national culture differences without focusing on the in-

dividual cultural contingencies in which partners' behaviors are affected.

Nonetheless, because national culture difference is complex and includes many dimensions, it is not always possible to identify it as being responsible for the business failure of the joint venture. Thus, the lack of influence of national cultural difference on the joint venture performance requires further examination of the above-mentioned alternatives through future empirical studies.

The findings of the present study, which reflect the importance of organizational culture difference in the joint venture performance, require future studies on various related issues. The fact that the study hypotheses, which focused on the negative influence of organizational culture variables on joint venture performance, were supported in part or in full, requires detailed understanding and analysis of the variables.

The models tested in this study also indicate the importance of partnership trust in understanding the behavioral processes in cross-cultural joint ventures. The study's findings reconfirm the position of previous studies that underscored the central role of partnership trust in inter-organizational relationships (Mohr and Spekman, 1994; Ring & Van de Ven, 1994). Further, depending on the stage of the joint venture, different processes seem to assume prominence in influencing partnership trust and joint venture performance. By measuring partnership trust in ongoing joint ventures, this study ratifies the role of acculturation in influencing process based trust producing mechanisms and correspondingly, partnership trust.

In conclusion, the congruence of a given practice with local cultural values can be an important contingency to be considered in any decision to transfer across cultural settings. Careful preliminary assessment of compatibility between local core values and those underlying joint venture structures and procedures may prevent costly and sometimes irreversible mistakes of implementing structures and practices that are not suited to the local environment (Lachman et al., 1994).

The study did not focus on examining other possibilities in which organizational culture influences joint venture performance, such as the structure of the partnership. The present study is limited to examining the following areas:

International joint ventures in which the country of one of the partners is Israel.



Partnership between two partners instead of many partners.

Ventures whose goal is profit, not those who are non-profitable organizations.

Therefore, the study focused on data collection from one of the partners in the venture (Israel), a limitation that may have biased the data.

Nonetheless, the findings of the present study shed some light on the importance of culture and its influence on joint venture performance, and especially the role of trust and socialization between partners. I am hopeful that the present study will serve as a worthy foundation for future studies.

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