

Impact of Relational Capital on International Joint Venture Learning and Performance: A Conceptual Framework

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ABSTRACT

PURPOSE

To investigate the critical factors that build up relational capital in an IJV and impact of relational capital on IJV learning and performance.

METHODOLOGY

The paper is based on a detailed review of literature

RESEARCH FINDINGS

According to literature factors leading to formation of relational capital have been identified.

RESEARCH LIMITATIONS

This paper just offers a conceptual model which is needed to be tested empirically.

RESEARCH IMPLICATIONS

This study will contribute to the existing literature on relational capital

ORIGINALITY

Provide a comprehensive framework for future empirical testing of the relationship between relational capital, IJV learning and performance.

1. Introduction

An IJV is a separate legal organizational entity signifying the partial holdings of two or more firms, in which the headquarter of at least one firms must be located outside the joint venture's country of operation (Shenkar & Zeira, 1987). Firms develop IJVs for various reasons including new market entry, enhanced access to resources, risk sharing and to gain economies of scale (Contractor & Lorange, 1988). International joint ventures (IJVs) are a fast increasing as a way for companies to utilise strategic competences (Harrigan 1986; Killing 1983). However, success has not come easily occurred to this form of firm, and failure rates have been high (Collins/Doorley 1991). In many cases problems in the IJVs have resulted from people related rather than technology related issues, for example partner perceptions of unequal costs and benefits, conflicts over decision-making, inadequate information sharing (Cascio/Serapio 1991; Killing 1983; Teagarden/Von Glinow 1989) and opportunistic behaviour. Opportunism is characterized by "calculated efforts to mislead, distort, disagree, obfuscate or otherwise confuse" (Williamson, 1985, p. 47). It is also defined as the "dark side" of the inter-organizational relationships (Inkpen and Beamish, 1997).

Overcoming these issues and high failure rates of IJVs require a better understanding of the factors involved in their formation and maintenance. Relational capital is critical in the effective formation and maintenance of IJV partners (Sambasivan et al, 2011). Relational capital deals with the quality of relationships that is present between partners and relationships require time, effort, personnel and other resources. The main components of the relational capital is the level of mutual trust, commitment, respect and friendship which arises out of the close interactions between partners involved

(Kale et al, 2000; Sambasivan et al., 2011). Strong relational capital is likely to aged alliance possible .i.e., mutual trust, respect, commitment and friendship will lead to a long time cooperation (Lenart, 2014). Strong relational capital stimulates close interaction between alliance partners, based on which alliance partners are able to conduct organizational learning through exchange and transfer of information and know-how across the alliance interface (Kale et al. 2002). Thus, strong relational capital also provides effective basis for organizational learning and plays a critical role in the success of the IJV (Cullen et al., 2000).

2. Literature Review

The various factors that leads to the formation of relational capital are:-

Goal Clarity

Goal represents the legal motive for which an IJV is formed. It is often found that firms of IJVs rarely have identical goals (Roberts 1980, Walmsley 1982, Zeira/Shenkar 1990). When goals of IJV partners are mismatched, this can cause confusion within the IJV and reduces IJVs effectiveness (Zeira et al, 1997). Having a clear set of goals provides clear benefits to any form of business venture. Clear set of goals carefully evaluate alternatives and provide a clear strategic mission and vision for the IJV, so that the IJV risk can be reduced. Clearly defined goals help IJV partners to achieve their joint interests and maintain harmony in the IJV (Dwyer, Schurr, & Oh, 1987; Morgan & Hunt, 1994). Thus, shared goals between partners increase mutual trust and commitment in contractual relationships in IJV and are significant in forming RC between the partners in IJV (Morgan & Hunt, 1994; Thuy & Quang, 2005, TJMMom et al, 2015).

Conflict Management

A critical aspect of any partnership is the likely conflict between the alliance partners and how they deal with. It is recognized that certain amount of conflict is expected to occur but how such conflict is managed is essential (Borys and Jemison, 1989), as the effect of conflict management techniques on the relationship of IJV partners can be productive or destructive (Deutsch, 1969). Integrative conflict management involves joint management of conflict with mutual concern for all concerned (Bazerman and Neal, 1984). It stimulates a communication- and contact-intensive process of conflict management. Strong two-way communication is a key component of successful conflict resolution (Cummings, 1984). In addition to communication, willingness to engage in joint problem solving and a mutual concern for all concerned will produce mutually satisfactory solutions. On the other hand, destructive conflict management techniques like control, coercion (Deutsch, 1969), are seen as counterproductive and are likely to damage the relationship between IJV partners. While an integrative method of conflict management produces feelings of procedural justice between the IJV partners and partners view the decision process to be fair and just. Such feelings affect individuals' higher-order attitudes of trust and commitment as well as lead to the development of relational capital in an IJV (Kale et al, 2000)

Flexibility

Flexibility refers to "the capacity of the organization to adapt effectively and in a timely manner to changing demands from either from the outside environment or from within the firm itself" (Milliman et al, 1991), IJV partners can contribute positively to flexibility by enabling easier role modification. IJVs which are based upon friendship are more expected to rely on implicit agreements, which are easier to modify/change than explicit i.e. written contracts (Frances and Sandberg, 2000). Furthermore, higher levels of friendship between IJV partners will result in greater commitment, which can reflect in willingness to accept role modification. In international joint ventures, strict adherence to legal contract between the partners is hardly possible (Thuy and Quang, 2005). Thus there is significant relationship between relational capital, which contains friendship, and flexibility. Flexibility helps in building mutual trust, friendship and trustworthy working environment between the IJV partners and leads to formation of RC in the IJV (Thuy & Quang, 2005; R Zolin et al, 2011; UK Bamel, 2013; UK Bamel, 2016)

Information Exchange

Information exchange means the willingness of the partners to unveil information that may facilitate the other's activities, as opposed to keeping information proprietary (Pearce, 2001). Information exchanges is critical to effective implementation of behaviour which is related with close attachments, understanding, and high levels of commitment. Implementation of such behaviour makes partners more open to communication and less motivated to withhold critical information, which not only improves the scope of information exchange (Zand, 1972), but also encourages the exchange of critical information (Uzzi, 1997). In an interdependent relationship, enhanced mutual information exchange will help the development of behavioural norms such

as trust, commitment, respect and friendship which is significant in forming the relational capital.

Relational capital and IJV learning

When a firm's own resources are insufficient, it starts considering for external sources and, establish cooperative relationships with others who have the necessary knowledge. A relationship built merely on legal contracts may make it hard to facilitate effective knowledge transfer (Liu et al, 2010). The degree to which a firm obtains knowledge from its alliance relationship is influenced by on the ability of the firm to understand where the relevant knowledge or expertise exist in its partner, and on the readiness of the firms to share knowledge (Dyer & Singh, 1998; Yli-Renko et al., 2001). Intention to learn makes companies make significant efforts and be open and willing to cooperate. Knowing the partner i.e. building relationship, identifying the main areas of its expertise and skills, exchanging knowledge and information, both parties develop deeper understanding, that strengthen relationships. When the companies realize that the partnership is fulfilling their expectations and needs, they become more committed in the IJV. Commitment and mutual understanding can improve the quality of relationships and information sharing between partners. Without commitment, there is no desire to learn or exchange knowledge. Thus, the more relational capital a firm develops from IJV, the more likely it is to acquire knowledge from its partners (Kale et al, 2000)

Relational capital and IJV performance

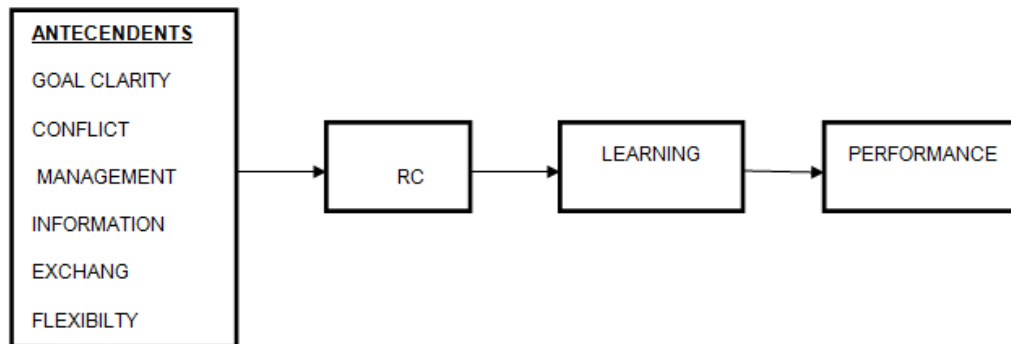
Learning between IJV partners may develop in multiple directions. Foreign firm may increase local market knowledge (Tsang, 2002), and local partners may increase new technical expertise, marketing and manufacturing skills from their foreign partners (Lyles & Salk, 1996; Shenkar & Li, 1999). Both have opportunity for building competence (Hamel, 1991). Construction of RC generates a trustful and friendship-based environment in which fear of opportunistic behaviour is reduced, lowers the need for monitoring, facilitates contractual adaptation and therefore limits the transaction costs related with an inter-organizational exchange (Gulati, 1995). When parties in the alliance trust each other, there is little need for contractual actions. RC is important for the IJVs to increase the probabilities of continuance and safeguard of investments from early and costly termination. Two dimensions of alliance performance that are crucial to a firm's long-term overall market Performance are- Alliance strength which refers to the ability of the alliance in terms of the interfirm partnering competence in solving problems and managing conflicts and Alliance stability which refers to the steadiness and stability of an interfirm relationship (Inkpen and Beamish, 1997), which is a function of the prolonged existence of the relationship. These two dimensions of performance of IJV can be achieved through building relational capital (Lee and Cavusgil, 2006). According to this author, a partnership which is developed on mutual trust and long-term perspective has the most chance of success (Quang, 1997). Therefore, RC stands at the core of the inter-partner relationship, reflecting the relational quality and contributing to the IJV performance (Thuy and Quang, 2005).

3. Objectives

- To find out various antecedents that lead to formation of Relational capital in an IJV
- To find out the impact of relational capital on IJV learning

- To find out the impact of relational capital on IJV performance
- To examine the mediating effect of IJV learning between relational capital and IJV performance

4. Proposed Framework



5. Methodology

The paper is conceptual in nature and provides a conceptual framework for future empirical testing. The paper is based on a detailed review of literature on factors that lead to formation of relational capital in an IJV and impact of relational capital on IJV learning and IJV performance. We derived the concept of relational capital from social capital which is based on the theory of social exchange through review of literature. Literature review of this paper takes into account some of the crucial articles on relational capital including studies of Kale (2000), Charles Dhanaraj (2004), (DR Krause, 2007), which have maximum number of citations among the studied papers and since the year 2000 there is growing number of importance on the issue of relational capital, recent research has highlighted the existence and importance of relational exchange in alliance (Ring & Van de Ven, 1992; Gulati, 1995; Kale et al., 2000; Pearce, 2001; Poppo & Zenger, 2002; C Dhanraj, 2004; BI Park, 2011; F Y Lo et al, 2016). For future empirical research, data collection can be done from the international joint ventures in India. Top and middle level corporate managers having the knowledge of concerned area in the international joint ventures will constitute sampling unit for our research. Factor analysis and PLS-SEM will be applied to the collected data for validation of proposed model.

6. Conclusion and Limitations

This study provides several new insights into the areas of IJV research. It supports and extends previous available research signifying the importance of relational exchange between IJV partners. Firms, enter into the IJV to interchange resources and capabilities. Though, to do so, they need to

create a positive organizational structure for that interchange. One of the likely way to improve the chance for success of the IJVs is to build and maintain RC between partners. Based on the previous literature available on IJV, a holistic framework is first proposed, which can be empirically modified and tested. Various antecedents that lead to the formation of relational capital and its impact on IJV learning and performance is seen. Knowledge is essential for MNEs to create competitive advantages (Kogut & Zander, 1992, 1993); hence learning is emphasised in an IJV context (Dhanaraj, Lyles, Steensma, & Tihanyi, 2004; Hamel, 1991; Madhok, 1995; 2002). In an IJV, learning occurs when a foreign parent transfers technical, managerial, and marketing knowledge to the IJV (Lyles & Salk, 1996; Shenkar & Li, 1999; Steensma & Lyles, 2000) and when a local parent transfers local market knowledge to it (Tsang, 2002). Whenever learning happened in an IJV, it was shown to have a positive effect on IJV performance (Dhanaraj et al., 2004; Lane et al., 2001; Lyles & Salk, 1996).

This paper is conceptual in nature and the relations between the variables need to be tested empirically. Learning occurs over time; thus we may need to adopt a (Ariño & de la Torre, 1998) longitudinal research approach (Doz, 1996; Hyder & Ghauri, 2000). A longitudinal perspective will better inform us about the implementation process of IJV learning and show us the evolution about how knowledge is codified, shared, distributed, interpreted, and internalized in an IJV (Kale & Singh, 2007). Focusing on learning within the IJV context, future research may expand on its antecedents such as partner selection and human resource management issues (Pak et al, 2009)

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