

Magnet Effect: A Spatial Analysis of Headquarter Locations in International Joint Ventures

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Abstract

This paper investigates International Joint Ventures (IJVs) whereby new organizational structures are formed through home and host country interaction. Its goal is to find out whether or not, there is a significant relationship between the “location of the headquarters” and “the dominance of either participant”, within the venture. In a typical equal equity venture (50%-50%), headquarters may be located in either of the adjoining organizations’ country or a mutually agreed outer country. As a result, the proximity of managerial control depending on the location of headquarters for utilizing pooled resources and dynamic capabilities of the new entity may have a greater impact on the formed venture.

Multinational and international organizations can be classified as companies with one dominant culture and without a commanding culture respectively (Hofstede, 1980). Because IJVs are composed of two or more organizations with one parent organization headquartered outside the IJVs’ country (Geringer & Hebert, 1989), potentially dominant cultures intersect under the newly formed entity. In order to achieve common organizational goals, companies will have the liability to share decision-making activities (Geringer & Hebert, 1989). Based on research by Salk (1997), the location of an IJV in the home or host country, and the culture of either venturer’s country can lead to dominance over the formed venture. While the ultimate mission is to achieve equilibrium, there may be an unbalanced advantage related to culture, and the proximity of either venturer’s location to the headquarters. Thus, cultural and locational attributes of venturers’ deserve a special attention for an IJV to survive in a constantly changing global environment.

Introduction

Dynamic capability and resource sharing has become a significant competitive advantage for those organizations operating at an international level. For easier access to each other's capabilities and resources, the establishment of International Joint Ventures (IJVs) provides an efficient way (Kogut, 1988; Grant, 1996) through combining two or more organizations together while creating a new structure in expectation of better performance. From a resource based view, Wernerfelt (1984) argues that when the identification of resources leading to high profits is managed, resource possession barriers can be lowered by development of new resources and exploitation of existing ones. IJVs are composed of two legally distinct organizations coming together, sharing decision making while one of the firms is headquartered outside the home country (Geringer & Hebert, 1989). Thus, IJVs can be considered as bundles of resources formed at home and host countries in order to minimize costs and uncertainty, especially when operating more efficiently in the international arena.

Another stream of research focuses on the cultural aspects of organizational life. The consequences of existence and lack of sharing common values may lead to "taken for granted behavioral patterns and dominance" (Hofstede, 1980, 2001; Salk, 1997; Buckley & Casson, 1996; Killing, 1983). Hofstede (2001, p.9) defines culture as "the collective programming of the mind that distinguishes the members of one group or category of people from another". In this vein, the argument that national cultures can be converged has been disputed widely. The disappearance of belief in "convergency theory" caused multinational business corporations to face difficulties in operating at international levels and the majority of those difficulties come from the lack of a common cultural frame of reference that is prevalent in the organization (Hofstede, 2001). From a sovereignty standpoint, Hofstede (2001, p.273) states that "the presence of a dominant national culture is an asset rather than a liability for the functioning of an organization, and it should be fostered carefully". Hence, high interaction and communication between parent organizations coming from different national cultures in an IJV (Kogut, 1988), can bring forth the supremacy of either of the adjoining organizations' cultural frame over the formed venture.

Theoretical Framework and Propositions

A remote location picked for an IJV, away from each of the adjoining countries is considered to avoid the dominance of one of the parent's influence over the formed venture (Salk, 1997). However, cultural and locational attributes of venturers may affect IJVs in distinctive ways and for some, a commanding cultural frame of reference may be preferred. From this standpoint, the selection of parent organizations residing in different countries becomes one of the crucial aspects of survival and success for any IJV (Hitt et al. 1995) which can be associated with cultural conflict and social compatibility of related countries. By establishing a joint venture model through the use of an IJV, the dynamic capabilities and resources of selected partners can be harnessed to a great extent. At a definitional level, Zollo and Winter (2002, p.340) state that dynamic capability "is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness". Thus, dynamic capabilities require collective activity in the sense that IJVs accomplish a common way of dealing with conflict arising from different locational and cultural attributes.

According to Hofstede (1991), organizational culture can be examined in light of five main dimensions which are composed of “power distance index”, “individualism”, “masculinity”, “uncertainty avoidance index” and “long term orientation”. Power distance index shows the relative strength of interdependence between supervisors and employees while high power distance scores indicate the dependence of subordinates to their bosses (Hofstede, 1991). Individualism refers to the degree of expectancy in the community for individuals with loose ties to look after themselves and masculinity is related to the distinctive social gender roles that the society imposes on its members such as men’s being tough and women’s being tender (Hofstede, 1991). Additionally, uncertainty avoidance is defined as “the extent to which the members of a culture feel threatened by uncertain or unknown situations” (Hofstede, 1991, p.113). Whereas uncertainty avoidance refers to a need of individuals for predictability, long term orientation takes virtues that can reap future rewards into account and ascribes to perseverance and thrift (Hofstede, 1991).

From a collective action perspective, different country specific cultural dimensions, which have a major impact on the utilization of resources, dynamic capabilities, and the location of headquarters, may clash under the newly formed joint ventures. Considering the context that the parent organizations come from, it could be argued that IJV’s headquarter location, along with the cultural dimensions will have a significant influence over the dominance of either participant within the venture in order for the company to survive and succeed.

By adopting selected country scales of cultural dimensions from Hofstede’s (2001) analysis as shown in Table 1, major IJVs can be categorized with respect to the parent organizations’ culture and the location of their headquarters. In this study, Sony Ericsson Mobile Communications AB (Sony Corporation 50%, Ericsson AB 50%), Motiva Enterprises, LLC (Shell Oil Company 50%, Saudi Refining 50%), Fujitsu Siemens Computers, Inc. (Fujitsu Limited 50%, Siemens AG 50%), PruHealth (Prudential PLC 50%, Discovery Holdings 50%), Fuji Xerox Co., Ltd. (Fuji Photo Film Co. 75%, Xerox Corporation 25%) and ICICI Prudential Life Insurance Company Ltd. (ICICI Bank - Industrial Credit and Investment Corporation of India 74%, Prudential PLC 26%) were examined. The relationship between IJV parent companies’ cultural dimension scores and attaining home country specifications is depicted in Figure 1.

<u>COUNTRY</u>	<u>PDI</u>	<u>IDV</u>	<u>MAS</u>	<u>UAI</u>	<u>LTO</u>
Germany	35	67	66	65	31
India	77	48	56	40	61
Japan	54	46	95	92	80
Saudi Arabia	80	38	53	68	X
South Africa	49	65	66	49	X
Sweden	31	71	5	29	33
United Kingdom	35	89	66	35	25
United States	40	91	62	46	29

Table 1.

Selected country scales of cultural dimensions adopted from Hofstede's (2001) analysis.

PDI: Power Distance Index

UAI: Uncertainty Avoidance Index

IDV: Individualism

LTO: Long Term Orientation

MAS: Masculinity

IJV: International Joint Venture



Figure 1. The relationship between IJV parent companies' cultural dimension scores and attaining home country specifications

Legend.
 ■ H: Home Country Acquaintance
 PDI: Power Distance Index
 IDV: Individualism, MAS: Masculinity

UAI: Uncertainty Avoidance Index
 LTO: Long Term Orientation
 IJV: International Joint Venture

Equal equity IJVs', as well as unevenly owned IJVs' cultural dimension scores can be related to attaining the home or host country role in the joint venture. In light of the research by Salk (1997) and Killing (1983), a dominance of one of the parents in an IJV due to the proximity of the headquarter location to the parent organizations' country may come to existence. Consequently, the establishment of a common cultural frame of reference can be managed accordingly. From this standpoint, it can be argued that the characteristics of specific cultural dimensions of a parent company is related to the proximity advantage involved in the headquarter location in an IJV.

Proposal 1. The lower the "power distance index" score of an equal equity IJV's either parent organization's country, the greater the proximity of headquarters to the lower scoring country and the greater the dominance through home country acquaintance.

Proposal 2. The higher the "individualism" score of an equal equity IJV's either parent organization's country, the greater the proximity of headquarters to the higher scoring country and the greater the dominance through home country acquaintance.

Proposal 3. The lower the "uncertainty avoidance index" score of an equal equity IJV's parent organization's country, the greater the proximity of headquarters to the lower scoring country and the greater the dominance through home country acquaintance.

Proposal 4. The lower the "long term orientation" score of an equal equity IJV's parent organization country, the greater the proximity of headquarters to the lower scoring country and the greater the dominance through home country acquaintance.

Proposal 5. The greater the share of a parent organization in an unevenly owned IJV, the greater the proximity of headquarters to the majority holder's country, and the greater the dominance through home country acquaintance.

Conclusions and Managerial Implications

Managers should be aware of cultural dimensions of their partner organizations while taking advantage of joint resources and dynamic capabilities. In this respect, headquarters function as the mediator between country specific characteristics and the managerial control as well as support which can be entrusted in international headquarters. Based on the argument that traditionally "controlling" supersedes "support", Hofstede (1994) foresees headquarters should foster support relationships so as to prevent alienation (related to the isolation of head office while providing no meaningful feedback about the business, to members of the organization). From an operational perspective, pervasive control and dominance of one partner is interrelated and sharing of day to day decision making may cause cultural conflict between each partner (Lyles & Salk, 1996). Furthermore, Ashford and Mael (1989, p.30) state that social identity dispute, rooted in incompatible organizational cultures "tends to be resolved by ordering, separating or buffering the identities". In the case of an IJV, the requirement that each parent organization acting as one, while bringing the need for a common cultural frame of reference, and the dominancy of either partner may turn into a preferable phenomenon, rather than an incident of obstruction.

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