

Organisational Culture, National Culture and Performance in International Joint Ventures based in Israel

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Abstract

In the light of globalisation, international joint ventures (IJV) appear to offer an opportunity to capitalise on the particularities of localised skills, knowledge and capabilities within the international arena. Moreover, the internationalisation of markets offers an increased scope to innovate, develop and market new products which may benefit from the advantages offered by international collaborations. Nonetheless, some of these IJV fail and many do not achieve satisfactory performance. One reason proposed for unsatisfactory performance is cultural differences, most often the differences in partners' national cultures. However, it is also possible that differences between corporate internal cultures may affect satisfaction. Consequently, this paper examines 66 international joint ventures in Israel to establish the impact of national and organisational cultures. We found that neither organisational nor national culture had much impact on performance or the perception of performance. However, trust seems to play an important mediating role.

Key words: *Organisational Culture, National Culture, Trust, Organisational Performance, International Joint Venture*

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1. Introduction

The purpose of this paper is to examine how cultures, organisational and national, affect the performance of international joint ventures. International joint ventures are seen to present opportunities to combine resources such as capability and knowledge to develop new products or services (Hitt et al., 2000) and thus innovate (Nummela, 2003), as well as the possibility of sharing costs or to enter new markets (Glaister and Buckley, 1996; Sirmon and Lane, 2004). Reflecting these opportunities, the number of such international joint ventures continues to increase (Lane et al., 2001). However,

not all of these ventures are successful (Tidd and Izumimoto, 2002). In spite of the rising popularity of joint ventures, a number of studies have noted problems, which seem to be inevitably associated with these alliances, in cooperating with a partner from a different national culture. Indeed, an estimated 37% to some 70% of international joint ventures are reported to suffer from performance problems (Pothukuchi et al., 2002). Several causal factors have been proposed (Yan and Zeng, 1999), but many studies point to issues about cultural differences (Barkema and Vermeulen, 1997). In many cases, there is significant dissatisfaction with their performance (Beamish, 1988), which may be attributable to these cultural differences. Yan and Zeng (1999:400) note how “cultural differences often influence the way partners in international joint ventures make decisions and solve problems”. Thus, cultural differences may create ambiguities in the relationship, which may lead to conflict and even dissolution of the venture (Barkema et al., 1996).

Research has shown that differences in national culture can disrupt collaboration and learning between alliance partners (Sirmon and Lane, 2004). Culture is a difficult concept to grasp and measure, but Tidd and Izumimoto (2002) suggest that it helps to distinguish between national and organisational cultures. Although cultural differences between joint venture partners have usually been considered a major factor that might influence venture failure or unsatisfactory performance, the majority of past studies have used macro measures of culture, such as nationality and ethnic differences. However, cultural differences are not limited to differences between nationalities; significant differences in the organisations' own internal culture may exist between organisations, even in the same country. Harrington (1988), for example, found that corporate cultural differences were partly responsible for the short duration of international joint ventures. Recently, the conclusion that it is only national culture differences that create difficulties between partners has been questioned. Pothukuchi et al (2002) suggested that the importance accorded to national culture differences on international alliance performance may be overstated because most studies have failed to consider or specify the influence of organisational culture differences. Whereas national culture relates primarily to deep-seated values, Sirmon and Lane (2004) point out that organisational culture relates primarily to shared beliefs in organisational practices and processes (Hofstede et al., 1990). Thus, the successful operation of a joint venture may depend on symmetry of organisational practices, or at least cooperation between partners. This may depend as much on the organisations' culture as any asymmetry between national cultures. Indeed, Pothukuchi et al. (2002, p. 258) found that “the presumed negative effect from partner dissimilarity on international joint venture performance originates more from differences in organisational culture than from differences in national culture”. Moreover, Sirmon and Lane (2004) found that there has been less research on organisational culture and international alliance performance than on national culture and international alliance performance.

However, the existence of cultural differences, whether organisational or national, does not in itself necessarily produce conflict which will adversely affect performance. It may be possible for the partners in an international joint venture to reach some accommodation which can help overcome cultural differences. Madhok (2004) suggests that literature has tended to overlook human relations core concepts such as trust, reciprocity, opportunism and forbearance in joint ventures. These concepts, which are interrelated, encompass behavioural variables at the heart of

voluntary inter-firm cooperation and have a significant influence on the dynamics and eventual performance within inter-organisational collaborations. These issues, national culture, organisational culture, acculturation and trust in international joint ventures based in Israel are the focus of this paper. We seek to establish how they impact on performance and satisfaction with performance. The paper first explores the literature to develop a model of the issues. This model is operationalised in our survey of 66 international joint ventures. We present our finding and discussion and finally make some concluding remarks.

2. International Joint Ventures: Cultures, Conflict and Partnership Trust

Deresky (2003) provides a useful description of an international joint venture: "A wide array of partnerships between business companies whose headquarters are located in different countries, and who communicate for the execution of different stages or parts of their activities, such as joined marketing, integrated production or joined development" (p. 261). The many definitions of international joint ventures presented in the literature reflect the considerable academic interest engendered by the concept and its prevalence in the fields of management, economics and law (Ballon, 1978; Beamish, 1984; Kogut, 1988). Lu (2006) notes that academic interest grew in the 1980s, partly driven by the challenge to the established ideas that Japan's striking economic success seemed to offer. Academic interest is matched by the increase in IJV (international joint ventures); between 1967 and 1974, IJVs replaced full-ownership branches as the most common form of multi-national American investment (Liebman, 1975). From 1974 to 1982, the number of new IJVs continued to increase, except for a slight decrease during 1981 and 1982. Since 1979, about 40% of the largest industrial companies in the USA have been involved in one or more IJVs (Janger, 1980). Thus, IJVs, despite their problems, have become a favoured form of international collaboration.

In recent years, IJVs have provided a fertile ground for strategic international partnerships (Deresky, 2003). Growth in global technologies and internationalisation of markets led to a dramatic rise in cross-national joint ventures even though joint ventures are considered to be risky. A cooperative strategy (of which an international joint venture, IJV, is one example) offers many advantages to a company, not least that the host country partner can supply familiarity with the host country's culture and market (Lu, 2006). As Robson et al. (2006) point out, an IJV may provide its parents with a basis for creating new or augmenting existing competitive advantages. For instance, an IJV could represent the best mode of entry into a developing or transition economy, because the close ties these businesses foster create more opportunities to exploit technology, marketing, and other information than looser collaborative ties (Hyder and Ghauri, 2000; Tsang et al, 2004). On the other hand, IJV deals involve several drawbacks and hazards, such as unmanageable complexity, loss of autonomy, and loss of proprietary information and ultimately face a high failure rate. Nonetheless, most joint ventures tend to be international. In Israel, the trend among foreign and local companies to establish locally based international joint ventures is increasing, whilst many Israeli companies are entering the arena of joint ventures abroad. Chorev and Anderson (2006) found that the combination of a highly skilled workforce and relative political and geographic isolation were key factors in the drive for internationalization of high technology industries. These factors indicate that

studying international joint ventures located in Israel may be very appropriate for examining the research issues.

Broadly speaking, extant research has sought to advance the understanding of the potentialities and challenges involved in the formation and management of IJVs. Yet it also seems that the failure rate of IJV is historically high (Holton, 1981). This high rate of failure may result from the difficulty and complexity of managing international joint ventures. Druker (1974) noted that IJVs are the most demanding and difficult, but the least understood of all means of diversification. Young and Bradford (1977, p. 9) maintain that IJVs contain "built-in self-destruction mechanisms", since the parent companies may view them as a temporary compromise instead of a desired permanent arrangement (see also Arni, 1982; Friedman and Beguin, 1971; Janger, 1980; Kobayashi, 1967). Lu (2006) suggests that some of the most complex problems of cultural differences are faced in the context of IJVs. An IJV has at least two parent firms and these are frequently from dissimilar national cultures so that differences between their management styles can damage IJV performance. Moreover, in contrast to the significant amount of knowledge available on human resources in full-ownership branches (Robock and Simmonds, 1983; Tung, 1984; Zeira and Harari, 1977), only a few studies have been conducted on these issues in IJVs. However, the issue of cultural factors for multinational firms investing in foreign countries has increasingly attracted academic attention in the field of international business (Buckley 2002). Thus, the increasing popularity, the significant rate of failure and the managerial complexity of IJVs point to the need for a deeper examination of the issue of organisational behavior. It is therefore important to identify the cultural variance which prevails in this type of international activity and define systematically the characteristic problems and their influence on the performance of IJVs.

Lu (2006) has proposed that cultural background is significant and that cultural distance between firms of different nationalities has been argued to influence co-operative strategy and the success or otherwise of international joint ventures. One recent example is Barkema and Vermeulen (1997), who examined the influence of differences in partners' national cultures on international alliance performance using Hofstede's dimensions of national culture. They found that partner differences in two of the dimensions (uncertainty avoidance and long-term orientation) had a strong negative relationship with the survival of the collaboration over several different periods. However, the other three dimensions of national culture (individualism, power distance and masculinity) did not (Sirmon and Lane, 2004). Indeed, Lu (2006b) notes the ambiguity of many empirical studies. Thus some researchers have suggested a complementary focus on organisational culture, as well as national, to present an inclusive and comprehensive relationship system that influences the performance of joint ventures (Park and Ungson, 1997). Support for this view can be found in a study by Harrigan (1988) which found that organisational culture is much more important than national culture in joint ventures. "... comments from interviewed managers created the impression that cultural homogeneity among sponsors is more important to venture success than symmetry in their national origins. For example, several observers noted that General Motors' values are more similar to those of its partner, Toyota, than to those of Ford Motors" (Harrigan, 1988:222). Similarly, Pothukuchi et al. (2002) argue for a renewed focus on organisational culture.

The international joint venture literature thus presents cultural differences as a barrier to organizational performance. However, getting to know and to understand each other- acculturation, may offer the mechanism to help overcome the barriers, between partners, that are raised by cultural differences. The construct of acculturation has been defined as "changes induced in (two cultural) systems as a result of the diffusion of cultural elements in both directions" (Berry, 1980). These changes become manifest in trust between the parties. Trust, thus defined, is the perceived likelihood of the other not behaving in a self-interested manner (Madhok, 2006). Managers are said to be discovering the key role that mutual trust plays in the success of international alliances and projects (Li et al., 2006). Trust can bring a number of important benefits to cross-national collaboration, as evidenced by its association with superior performance. As Child (2001) explains, trust generates willingness to overcome cultural differences and to work through other difficulties that arise in collaborations. Relationship building between partners is a challenge for all cooperative alliances, but especially for IJVs where trust is particularly difficult to build, because partners may differ widely in their cultural background and business operations. However, trust partners can purposely shape the trust process toward familiarisation (Li et al., 2006)

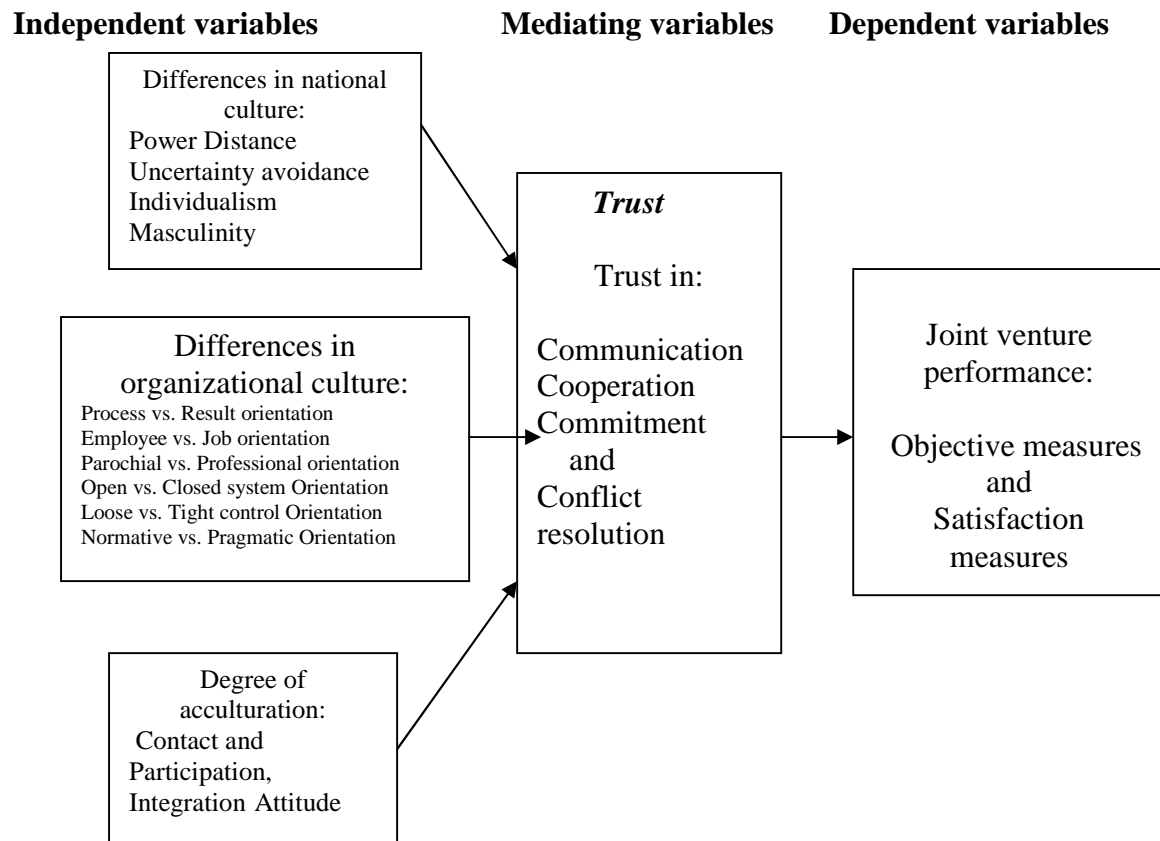
Boersma et al. (2003: 1033) explain in some detail how the distinctive characteristic of a joint venture, which they see as shared ownership, is also its key problem and the bearing it has on trust. Shared control implies two or more companies deciding the strategic direction and operational issues of the joint subsidiary and shared control brings with it increased transaction costs. "Transaction costs have both ex ante and ex post elements. Ex ante transaction costs include drafting, negotiating and safeguarding an agreement. They can be quantified by examining actual costs (mainly management time) of the agreement process and examining the insurance costs of default. Ex post transaction costs are more complex." Ex post costs include: (1) the adaptation costs incurred when transactions drift out of alignment with the terms of the agreement, (2) the haggling costs incurred if bilateral efforts are made to correct ex post misalignments, (3) the set-up costs and running costs associated with the governance structures (either in the courts or outside them) to which any disputes are referred and (4) the bonding costs of effecting secure commitments. Ex post costs are not easily quantifiable prior to the implementation of the agreement because they include an element of uncertainty. These ex post costs signify the importance of trust in IJVs.

In an empirical study which focused on inter-organization trust and which was based on a sociological definition (Kelly and Thibaut, 1978) and an economic-theoretical perception (Williamson, 1985), Anderson and Narus (1986:326) found that trust is: "The firm's belief that another company will perform actions that will result in positive outcomes for the firm, as well as not take unexpected actions that would result in negative outcomes for the firm. The strength of this belief may lead the firm to make a trusting response or action, whereby the firm commits itself to a possible loss, depending upon the subsequent actions of the other company". Anderson and Narus's account indicates that "partnership trust" as opposed to a general "trust" is most relevant in the joint venture context, and therefore, this study draws from the definition and measures developed in the inter-organisational context by Anderson and Narus (1986).

To summarise our arguments and observations; we note that both national and organisational cultural differences may adversely affect performance, but that trust,

specifically partnership trust, may help overcome this problem in IJVs, as the model in Figure 1 indicates.

Figure 1: The influence of cultural differences on the performance of cross-cultural joint ventures



3. Methods

3.1 Sample

The data were collected from 66 Israeli firms which have joint ventures with foreign firms from 23 countries. These firms are active in 16 varied industries. There are several methodological reasons for the relatively extensive sample. First, to obtain findings that are based on data drawn from a variety of countries and industries, thus reflecting several different cultures. This motive is compatible with that of Park and Ungson (1997), who believe that future studies should reflect more than two cultures; secondly, to understand the cultural variance in different sectors and industries, in order to present a variety of industrial cultures and finally, to understand the generic variables and how they influence the creation of cultural differences in projects (the project's age, longevity and scope).

The study used a validated sampling method, tested by Geringer and Herbert (1991), according to which information collected from joint ventures through the joint venture partner based in Israel will be valid and representative of the entire project performance. A full expression of this technique can be found in Geringer and Herbert's (1991) study in which they tested fifteen performance measures and found a high degree of correlation for thirteen measures in the case of one partner and for twelve measures in the case of the other partner.

3.2 Constructs

Conceptually, the study reflects the importance of cultural variance at both international and organisational levels, but focuses on the mediating variables of trust and acculturation on the part of the partners. These are treated as variables that influence performance behaviour. Accordingly, data were collected on the following

Independent variables:

Difference in organisational culture (6 scales)

Difference in national culture (4 scales)

Degree of acculturation (2 scales)

Mediating variable:

Partnership trust (4 scales and 4 items)

Dependent variable:

Joint venture performance (2 scales).

3.3 Reliability of the measures

The reliability of the measurement tools is described as the relation between the actual variance and the observed variance. The scales could be differentiated through their means. The higher the value of alpha (no less than 0.6), the better the scale represents reliably in that world of content (Rosenthal and Rosnow, 1991). The reliability of the measurement tools in this study was tested using the Alpha Cronbach method as detailed in the following table 2:

Table 2: Reliability of the Measures

Variable	Measurement scale	Alpha Cronbach
Joint venture performance	Object attainment importance	0.8932
	Object attainment fulfilment	0.8396
	Satisfaction importance	0.8125
	Satisfaction fulfilment	0.9200
Acculturation	Actual participation	0.5350
	Participation attitude	0.6000
	Integration: Ideally	0.6973
	Actual	0.5865
Organisational culture	Organisational culture	0.6942
	The partner's organisational culture	0.7258
	Difference	0.8083
Trust	Trust overall	0.8223
	Trust 1	0.7423
	Trust 2	0.7158
	Trust 3	0.8012
	Trust 4	0.8262

4 Findings

All models were regressed based on maximum likelihood estimates procedure. The maximum likelihood function has several desirable characteristics such as being

asymptotically unbiased, consistent, asymptotically efficient, scale invariant, and scale free (with a few exceptions) estimates. To date, this procedure is the most widely used fitting function for general structural equation models (Bollen, 1989). In the present study, each dimension is connected to two or more variables to achieve as high a reliability level as possible. For example, the constructs organisational culture, partnership trust, joint venture performance and degree of acculturation are unobserved/latent constructs, and are connected to their respective measures (observed variables). National culture differences were measured by a single measure (each of the four indices) and therefore were not treated as an unobserved construct. The study consists of four latent constructs and their corresponding measurement sub-models. The model component connecting the unobserved variables to each other is called the structural model, and represents the relationship between hypothetically "pure" constructs. The study findings can be summarised as follows:

Hypothesis 1:

- A. A negative relation will be found between difference in national culture and joint venture performance. This hypothesis was supported ($r_p=0.702$; $p<0.05$) among respondents with trust level in the third quarter (medium-high) on the Uncertainty dimension only.
- B. A negative relation will be found between difference in national culture and satisfaction with performance level of joint ventures - not supported.

Hypothesis 2:

- A. A negative relation will be found between difference in organisational culture and joint venture performance. This hypothesis was supported ($r_p=0.640$; $p<0.05$) among respondents with trust level in the second quarter (medium-low) on the Employee dimension and among respondents with trust level in the first quarter (low-low) on the Process dimension ($r_p=-0.551$; $p<0.05$).
- B. A negative relation will be found between difference in organisational culture and satisfaction with performance level of joint ventures. This was supported ($r_p=0.571$; $p<0.05$) among respondents with trust level in the first quarter (low-low) on the Employee dimension and among respondents with trust level in the second quarter (medium-low) on the Parochial dimension ($r_p=-0.553$; $p<0.05$).

Hypothesis 3:

- A. The intensity of the relation between difference in organisational culture and joint venture performance will be stronger than the intensity of the relation between difference in national culture and joint venture performance. This hypothesis was not supported. The dimension Uncertainty is the best predictor ($R^2=0.49$) for joint venture performance under the limits of the values of Trust. The dimension Employee is the best predictor ($R^2=0.41$) for joint venture performance under the limits of the values of Trust.
- B. The intensity of the relation between difference in organisational culture and satisfaction with performance level of joint venture is stronger than the intensity of the relation between difference in national culture and satisfaction with joint venture performance. This hypothesis was not supported. It was found that The dimension Employee is the best predictor of all the variable's dimensions ($R^2=0.33$) among respondents with trust level in the first quarter (low-low), in contrast with the lack of intra-quarter predictor in all the dimensions of difference in national culture.

Hypothesis 4:

- A. Trust among joint venture partners will have a positive relation with joint venture performance. This hypothesis was not supported.
- B. Trust between joint venture partners will have a positive relation with satisfaction with joint venture performance. This hypothesis was supported ($r_p=0.528$; $p<0.01$). A better predictor of satisfaction is the dimension Conflict ($r_p=0.634$; $p<0.01$).

Hypothesis 5:

- A. Trust is a mediating variable in the relation between difference in national culture and joint venture performance. This hypothesis was not supported.
- B. Trust is a mediating variable in the relation between difference in national culture and satisfaction with performance level. This hypothesis was supported. Through the mediation of the variable Trust, the model that includes the variables of difference in national culture accounts for 31% of the satisfaction with performance level of joint ventures.

5. Discussion

The study combined a number of the key elements of culture to try to establish the relative importance it plays in IJVs. As the summary shows, we found little support for the argument that either national or organisational culture has a negative effect on the performance or the perception of performance in the joint ventures that we examined. This in itself is interesting because, despite the ambiguity noted in our findings from the literature, there is a tendency to see cultural differences of some sort of intractable problematic and as a major cause of dissatisfaction with IJV performance. We also found no evidence that national culture had a bigger impact than organisational culture. This is rather surprising. Given that our sample was highly international in scope, we might have expected some evidence that nationalities played a role in the performance of joint ventures. However, our results are clear that neither organisational or national culture had much impact on performance or satisfaction with performance.

Trust does seem to play an important role as a mediating influence on national cultures and performance satisfaction. This is a useful finding because our sample covered a range of industries, indicating that trust was not limited to any particular sectors or industries. Thus the “technical” type of trust, sometimes called “swift trust” based on recognition of competencies within a given commercial context, does not seem to apply. Trust appears in the data as more likely to be well grounded in relationships. Our data only allows us to speculate on how this operates. Nonetheless, the differences presented between trust as a mediating variable in performance and satisfaction with performance leads us to argue that trust may operate to smooth the operations of joint ventures. Accordingly, if partners in a joint venture share a high level of trust, what we have described as partnership trust, they are more likely to be satisfied with the way the joint venture works. Of course, it may be that a favourable disposition towards trust is, itself, a cultural artefact. However, given the variety of nationalities and industries in our sample, this is unlikely. Trust is more likely to have been formed within the relationship, rather than a prior disposition. Thus what we described as acculturation appears to be a critical element.

We do have some caveats about how much we can generalise our findings beyond the boundaries of Israel. The particular social and political geography, combined with a

rather unique pool of human capital and economic particularities, may oblige Israelis, as partners in international joint ventures, to have a less nationalistic outlook towards international joint ventures. Moreover, although Israelis have a very strong sense of national identity, many Israelis are immigrants or offspring of recent immigrants. This may lead them to have a greater degree of tolerance towards cultural differences.

6. Conclusions and further research

Our study considered a topic of increasing interest, the performance of IJVs and the role played by cultural and organisational differences. We drew out from the literature the key debates about the relative importance of organisational culture and national cultures and found that trust appeared to mediate these differences, at least as far as satisfaction with performance is concerned. Our own findings appeared to confirm the importance of partnership trust. These findings may be significant in the light of increasing globalisation. The literature clearly indicates an increasing trend towards globalisation, with IJVs a favoured method of internationally capitalising on technologies. Hence any increased, and contemporary, understanding of IJVs is useful in extending our understanding of how they work best.

However, since our results are less ambiguous than many previous studies, we propose that we may be seeing an outcome of globalisation. Since our study is more recent than those in our literature review, it may represent a more up to date and current situation. Globalisation is said to have different effects; it brings far things closer together, but may also produce more uniformity across nations. Paradoxically, it is also often noted how “glocalisation” produces impacts on particular places. These globalisation effects may be represented in our findings and symbolise some changes. The rise in the number of trans-national businesses is manifest in the increased trend to establish joint ventures to capitalise on the benefits accruing to specific locations. Thus the rich source of highly skilled labour extant in Israel, coupled with its need to penetrate foreign markets, encourages joint ventures to locate in Israel. This has profound local effects. On the other hand, globalisation is also said to produce convergence, so that we may be seeing a convergence in cultures or at least an increased openness towards cultural diversity. Because our study is more recent than previous work, and perhaps because it was based in a cosmopolitan society, we may be seeing a convergence of business culture and a tolerance of different national cultures, where difference is subsumed in the need to get things done.

We believe that our findings about trust are important in that they seem to signify that differences can be overcome if trust is present. If we contextualise our study in the wider literature, it seems that building trust through communication and an understanding of motives may be critical for joint venture success. Our study only examined the effects, so it would be very instructive to study this process. We propose that a qualitative study, perhaps using case studies, with techniques of in-depth interviews and participant observation would be enlightening. Our other recommendation for future research is to replicate our work in a different environment. A similar study in another location, or an industry-specific study, would give us more confidence about the critical role of trust in promoting success in international joint ventures.

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