

Transforming the Organisations: Relational Capital the Soft Side of International Joint Ventures

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ABSTRACT

Purpose: IJV's are failing because of financial issues as well as of relationship issues between the companies which lead to *opportunistic* behaviour (Spekman et al, 1996; Syahchari et al, 2016). The success in IJVs requires care not only to the hard side of IJV management but, also, on the soft side. The soft side refers to the growth and management of relationship capital in the IJVs. Thus there is a need for building relational capital in IJV. This paper tries to explore the factors that build up relational capital in an IJV and impact of relational capital on IJV performance.

Methodology: The paper is conceptual in nature and provides a conceptual framework for future empirical research. 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 performance. The paper is based on a detailed review of literature of total 100 papers on relational capital.

Research Findings: According to literature factors leading to formation of relational capital are conflict management which includes joint problem solving, two way communication, monitoring and emphasis on cultural obstacles and partner fit which includes partner complementarity, partner compatibility and cultural fit.

Research Limitations: This paper just offers a conceptual model which is needed to be tested empirically. It is well-known that IJVs change and grow over time. Consequently, future research can extend and modify this study through longitudinal study.

Research Implications: This study will contribute to the existing literature on relational capital for improving IJV performance. It will check various propositions like significant relationship between relational capital and conflict management and partner fit. It will also have various managerial implications as it will provide a list of factors for building up of better relational capital in IJVs.

Originality: Various studies have been done on the concerned topic but this study integrates organisational factors such as conflict management, partner fit that form relational capital and its impact on IJV performance to provide a comprehensive framework for future empirical.

Keywords: International joint ventures (IJV), relational capital, International joint, conflict management, partner fit

INTRODUCTION

An IJV is a separate legal organizational entity representing the partial holdings of two or more firms, in which the headquarter of at least one firm must be located outside the joint venture's country of operation (Shenkar & Zeira, 1987). Over the past years, inter-organizational cooperative arrangements including international joint ventures have increasingly become a way of improving a firm's competitiveness. The creation of an international joint venture (IJV) is a significant market entry strategy that has been implemented by many multinational corporations (MNCs) in order to expand globally (Makino, Chan, Isobe, & Beamish, 2007). Even though the number of IJV formation has increased, these arrangements are often burdened with problems of instability, poor performance and premature termination (Parkhe, 1993). Many researchers claim that more than 50% of the IJVs fail (Dyer et al., 2001). Overcoming high failure rates of strategic alliances require an improved understanding of the issues involved in their formation and maintenance (Sambasivan et al., 2013). Before firms enter into IJV, they often spend substantial time in gauging the potential risks and financial benefits of the relationship. They formulate thorough plans for the sharing of rewards and outputs of the alliance. In other words, partner firms work carefully on the hard functional (e.g., the legal, financial, operational) side of strategic IJV management. However, no amount of financial investment and attention to the hard side of IJV management are worth the risk without equivalent attention to the soft side. In IJV, the soft side of management refers to the development and management of relationship capital in the IJV. Relationship capital/ Relational capital in the IJV is the quality of the relationship that occurs between group (Coleman, 1990). Relational capital involves having an IJV partners attend to and invest in time and effort toward building positive feelings and

interaction patterns in the IJV relationship. If relational capital is ignored completely or subordinated as secondary to financial concerns, the IJV cannot enhance performance (Cullen et al, 2000)

Relational capital concept have been applied in buyer-seller relationship, marketing channels, business networks and IJV. Thus relational capital has been defined with different perspective in research papers. Table 1 lists key aspects of relational capital definition as identified by authors.

AUTHOR	RELATIONAL CAPITAL DEFINATION
Kale et al,	Mutual trust, respect, understanding, and close friendship that reside at the individual level between the IJV partners.
Cousins et al, 2006	goodwill between buyers and sellers, described as relational capital
Kohtamäki et al, 2013	relational capital as a form of social capital embedded in a single business relationship that includes dimensions such as trust, open interaction and a sense of shared destiny between the supplier and the customer

The aim of the paper is to comprehensively review the existing relational capital literature with the purpose of succinct representation of the current status and facilitating future research in the field. The key objectives of this paper are:

To study the relationship between partner fit and relational capital

To study the relationship between conflict management and relational capital.

To understand how partner fit and conflict management lead to building of relational CAPITAL and better IJV performance.

RESEARCH 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 IJV performance. We derive 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), 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 strategic 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). In order to find reliable and valid studies with respect to relational capital, literature search was done in the databases like Elsevier, Emerald, Springer, Sage, Taylor n Francis, Wiley Online Library, IEEE, Decision Sciences, etc. and search engine like Google scholar and web of science were used. The identified keywords searched were "Relational capital", "Conflict management", "Partner fit", "Relational capital and performance of IJV".

REVIEW OF LITERATURE

Conflict management

An important feature of any partnership is the likely conflict between the strategic alliance partners and how they manage it. Conflict mostly is integral part of an alliances relationship on count of the inherent dependencies, such as; partner opportunism (Hele`ne Delerue-Vidot, 2006) goal difference (Doz, 1996), and cross-cultural differences (Wadecharoen et al, 2011). When conflict is likely, the important point is that how such conflict should be managed. Conflicts in IJV are mostly concentrated upon issues of *asymmetrical contributions* via respective strategic alliance partners and the share of returns to partners (Shakeri and Radfar, 2016). The impact of conflict resolution on the relationship can be productive or destructive. Thus, the manner in which partners resolve conflict has long term implications for partnership success (Mohr and Spekmen, 1994).

Integrative conflict management techniques can prevent unproductivity, stimulate interest and curiosity and provide a "medium through which problems can be solved" (Deutsch 1969, p. 19). On the other hand, destructive conflict management techniques, when applied to the IJV, results in one-sided, imposed resolutions that distort relationships. Partners try to impose their solution on each other and as a consequence often fail to reach mutually solution. Imposed solutions and the failure to reach agreement frustrate their common action (Morris and Cadogan, 2001; Hempel et al, 2009). The use of destructive conflict resolution techniques (e.g., domination, confrontation) are seen as counter-productive and are very likely to damage the fabric of the partnership (Mohr and Spekmen, 1994), thus an integrative

approach to problem solving is more desirable. The integrative resolution of the conflict involves the following techniques.

Joint problem solving

Joint problem solving reflects the degree to which the partners in an IJV share accountability for dealing with problems and sustaining their relationships (Pearce, 2001). In IJV where the environment is uncertain and turbulent the emphasis on joint problem solving cannot be undermined. Each partner alone will not have a comprehensive overview of the situation. (Cummings, 1984).

When partners engage in joint problem solving, a mutually acceptable solution may be reached, thereby enhancing partnership success. Partners often persuade each other to adopt specific solutions to the conflict situation. These persuasive attempts will generally be more productive than the use of coercion or domination (Deutsch, 1969). Joint management of conflict will lead to 'win-win' situation for all partners concerned (Kale et al, 2000)

Strong 2-way communication

Conflict management by the strong 2-way communication process helps IJV partners to clearly define what each partner gains from their relationship and what is 'off-limits.' Contact intensive mechanisms like strong 2-way communication, helps IJV partners to control not only likely conflict conditions but also confines behaviour such as opportunistic or secretive efforts by any partner to unilaterally capture core proprietary assets of the other (Shakeri et al, 2016). Open lines of communication aids in the continued growth of close ties and resolution of potential conflict situations, therefore, it is seen that experienced managers facilitate easy and open communication for addressing IJV-related conflicts.

Monitoring/ identification of potential conflicts

Sometimes the method of conflict management is established, with IJV partners setting up formal joint mechanisms to monitor and control potential conflict conditions. Monitoring not only offers each partner with a better understanding of each other concerns but also enables early recognition of possible conflict situations. Monitoring conflict may preempt the threat of conflict situations partially (Shakeri et al, 2016 Parkhe 1993, Kale et al, 2000)

Emphasis on cultural obstacles

The cultural sensitivity in an IJV reflects its partners' mutual understanding of and attempt to manage their cultural differences, which often occur in organizations where members come from multi-cultural backgrounds (Thug and Quang, 2005). In an IJV, the partners come from different countries that are culturally, historically and economically different. Likely differences can significantly affect their approaches to problem solving. Different approaches to the conflict management can cause misunderstanding among the members.

In this situation, communication between the partners is reduced and partners are unwilling to cooperate and work together, and trust between them is low (Dodgson, 1993). In an IJV with high cultural sensitivity, the partners are sympathetic to the concerns of each other. With proper management of the cultural differences, barriers between the partners are reduced and communication flow is encouraged, and lower the potential for conflict and enhance the likelihood of alliance success. (Dodgson, 1993, Kale et al, 2000)

Partner fit

Partner fit can be defined as complementarity and compatibility between the partners (Harrigan, 1988; Tocchi, 1996). Partner fit defines the extent to which organisations can get along and realise expected synergies from the venture. With high levels of partner fit, there is more consultative give and take when disagreements occur (Madhok 1995; Morris and Cadogan, 2001).

Partner fit is one of fundamental activity to attain competitive advantage and also to sustain that advantage. Partner fit helps to reinforce and create synergy among each partner so as to support the firm's strategy and create a competitive position in the marketplace (Yamakawa et al, 2011)

Complementarity

"IJV resource complementarity is the degree to which partner firms are able to eliminate deficits in each other's portfolio of resources and thereby strengthen each partner's ability to achieve business goals" (Lambe et al, 2002). Complementarity has been studied in terms of top management team complementarity, technological complementarity, strategic and market complementarity, product complementarity and resource complementarity (Bauer and Kurt

matzler,2013).One of the most important motives of a joint venture for the partners is to complement each partner's weaknesses, particularly with regard to resources and capabilities.

There is no need to form an IJV if each partner has sufficient resources and capabilities to compete in global markets(Kwon,2008).Synergistic benefits arising from resource combinations were more likely to be unique and valuable when based on resource complementarity, rather than similarity (Deitz et al, 2010).Resource complementarity implies the mutual need for each other's resources, and therefore results in mutual self-interest of partners to refrain from opportunism; hence it enhances inter-partner relationship (Kalid and Alib,2016)

Partner compatibility

Compatibility refers to organizational harmonization between IJV partners. Strategic compatibility lessens the need for a strong administrative structure in IJV. Compatibility of partners has been evaluated in several criterions: operating strategy, corporate cultures, management styles, nationality (Parkhe, 1993; Kwon, 2008). Compatibility between partners raises the 'chemistry' between them.

Partner's compatibility helps to resolve differences between IJV partners by enabling open and easy interaction between them. Compatibility between the IJV partners helps the firms to practically take advantage of the learning offered through the complementarity of competencies between them (Shakeri et al,2016) Overall, compatibility and complementarity fit is expected to positively impact both relational capital between partners(kale et al, 2001)

Cultural fit

Cultural incompatibility or misfit is one of the most cited reasons for the low success rates of IJV (Cartwright and Schoenberg, 2006; Nguyen and Kleiner, 2003). Organizational culture has an influence on nearly all organizational practices, directives, leadership styles, and administration processes (Chatterjee *et al.*, 1992). National and organizational culture are separate constructs with “different attitudinal and behavioural links and, possibly, different implications for the postmerger integration process”(Stahl and Voigt, 2008).

National culture has a less negative impact on synergy realization, and shareholder value than cultural differences on an organizational level(Stahl and Voigt, 2008). Organizational culture can be defined as beliefs, values, and assumptions shared by the members of an organization (Schein, 1985). The cultural fit is relevant for the realization of the synergies and potentials in an IJV (Cartwright, 2006; Datta, 1991).

Although it seems obvious that cultural similarity fosters integration and success, also there is empirical evidence that cultural differences have a strong positive impact on synergy and potential realization (Schraeder and Self, 2003; Teerikangas and Very, 2006). Therefore, cultural fit allows similarities as well as differences that mutually support each other—rather than on cultural similarity. As mentioned above, cultural fit has a strong impact on the realization of potentials and synergies and on IJV success(Bauer and Kurt matzler,2014)

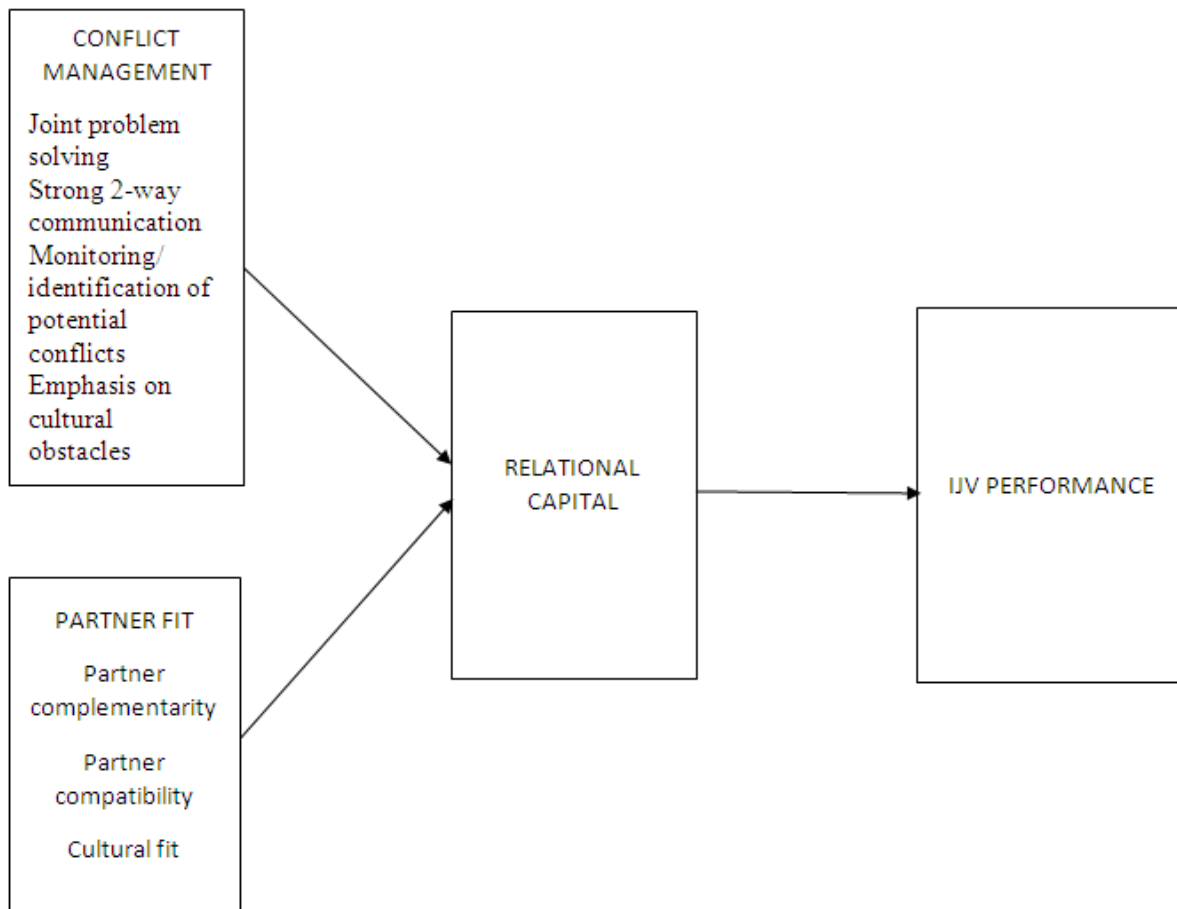
Relational capital and IJV performance

Relational exchange theory (Dore, 1983) in economic sociology also discusses how personal relationships based on trust arise and exist between firms. Personal connections and relationships play an important role between the contracting firms (Ring and Van de Ven, 1992). Such mutual trust, respect, and friendship that reside at the individual level between IJV partners is referred to as relational capital (Kale et al, 2000)

Building RC creates a trustful and friendship-based working environment in which all partners of the IJVs enjoy synergy and cooperation and strive for the IJV's shared goals. This ideal working environment counters fear of opportunistic behaviour, decreases the need for monitoring, assists in contractual adaptation and therefore reduces the transaction costs associated with an inter-organizational exchange (Gulati, 1995). Due to this relational governance, therefore, lowers transaction costs and facilitates adaptive responses.

RC becomes essential for the IJVs by fostering continuance. Thus RC is important for the IJVs to increase the odds of continuance and safeguard specific investments from premature and costly termination (Thug and Quang, 2005). Strong RC usually engenders close interaction between alliance partners. It can encourage learning by facilitating exchange and transfer of information and know-how across the alliance interface (Kale et al., 2000).

PROPOSED FRAMEWORK



CONCLUSION AND LIMITATION

Personal connections and relationships play an important role between the contracting firms (Ring and Van de Ven, 1992). Such mutual trust, respect, and friendship that reside at the individual level between IJV partners is referred as relational capital (Kale et al, 2000). Conflict management and partner fit is one of the important factors that lead to formation of relational capital. An integrative method of conflict management i.e. joint problem solving, two way communication, monitoring and emphasis on cultural obstacles produces feelings of procedural justice between the IJV partners. Such feeling thus helps in building trust and commitment (Kim and Mauborgne, 1998). Thus an effective integrative conflict management can be an important determinant in building RC between IJV partners (Kale et al, 2000; thug and Quang, 2005). IJV without synergy and collaboration, especially in conflict resolution, will suffer low partner satisfaction and will not succeed in the long run (Phong, 1995; YC Kwon, 2008; YS Pak et al, 2009). Also greater the complementarity and compatibility between the IJV partners, greater will be the RC between the IJV partners. Building RC creates a trustful and friendship-based working environment in which all partners of the IJVs enjoy synergy and cooperation and strive for the IJV's shared goals. Thus, increases the performance of IJV

This study will contribute to the existing literature on relational capital for improving IJV performance. This paper just offers a conceptual model which is needed to be tested empirically. 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. It is well-known that IJVs change and grow over time. Consequently, future research can extend and modify this study through longitudinal study.

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