

# Inter-partner Fit Mechanisms for Sustainable Joint Ventures: Evidence from Japanese Firms in Korea

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## Abstract

**Purpose** – Our study aimed to examine the roles of conflict management in maintaining a sustainable good relationship between joint venture (JV) partners. Although the concepts of relational capital, mutual commitment, and cultural adaptation have been neglected in previous research on interorganizational relationships, we treated them as inter-partner fit mechanism capabilities of affecting the level of satisfaction in a relationship with a JV partner.

**Design/methodology** – In order to test hypotheses, we sent a questionnaire to Japanese firms operating JVs in South Korea and asked whether their levels of satisfaction with their JV partners increase when conflict management techniques are used to reduce the conflicts that usually arise between partners.

**Findings** – The results of our study suggested that it is important for firms participating in a JV to construct and reinforce an inter-partner fit mechanism that enables them to maintain a favorable partnership. In addition, we suggested that relational capital, cultural adaptation, and mutual commitment influence conflict reduction and the level of satisfaction experienced in JVs. Moreover, the results showed that conflict management has a significant effect on developing solid partnerships and performance in JV situations.

**Originality/value** – We advanced a new paradigm about conflict management and suggested methods of research propositions that are well grounded in the latest findings in conflict management research pertaining to JVs.

**Keywords:** Conflict Management, Inter-partner Fit Mechanism, Joint Venture

**JEL Classifications:** F21, F23, M16

## 1. Introduction

With the recent surge in strategic alliances among firms doing business globally, international joint ventures (hereinafter referred to as IJVs) has been popularized. IJVs have been used for a long time not only in manufacturing business but also in R&D projects (Sahebi, Nickel, and Ashayeri, 2015). For example, Pfizer, an American multinational pharmaceutical corporation, and BioNTech, a German biotechnology company have co-developed a COVID-19 vaccine, while LG Electronics, a Korean multinational electronics

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company, entered the electric vehicle and connected car market through a JV with Luxoft, a digital strategy and software engineering firm headquartered in Switzerland and Magna International, a Canadian mobility technology company for automakers. JVs have been actively used in various industries as a means of sharing costs with each other and reducing capital demand in times of crisis (Bamford, Baynham, and Ernst, 2020). Therefore, for business managers, the picture is clear—JVs are a reality of doing global business.

Research has examined on how to establish sustainable positive relationships in partnering firms (Gomes, Barnes, and Mahmood, 2016; Kang In-Won, Han Shin, and Shin Geon-Cheol, 2014; Kashyap and Sivadas, 2012; Nippa, Beechler, and Kliosseck, 2007; Nippa and Reuer, 2019). Much emphasis has been placed on analyzing the cause of failures in establishing successful JV relationships. Conflict has been one of the most contributing factors that complicate management when a business entity comprises a number of allies. Ozturgut (2012) explored the economic, political and socio-cultural challenges of Sino-U.S. joint venture companies in China. This study found that there are so many conflicts but there is no immediate solution. China has been willing to open up its economy but at the same time endeavored to maintain its cultural, social, economic, and political values and norms. Our study emphasized that these obstacles are attributable to conflicting to maintain a JV in China. Le Nguyen and Larimo (2011) also contended that finding conflict management program is a primary factor of IJV success.

Because conflict is a predominant factor in breaking the JV relationships, scholars have increasingly recognized the need for constructing appropriate conflict resolution mechanisms (Boonsathorn, 2007; Mathieu and Schulze, 2006; Tower, Hewett, and Fenik, 2019; Vaidya, 2017). Recent organizational research has explored conflict and conflict resolution between organizations and suggested that conflict resolution would assume increasing importance in the future (Fainshmidt, White, and Cangioni, 2014; Le Nguyen, Larimo, and Ali, 2016). Many studies on conflict within JVs have focused on resolving conflict through the collaborating, compromising, and legalistic strategies (e.g., Ruble and Thomas, 1976; Lin and Germain, 1998; Thuy and Quang, 2005; Lu, 2007). A firm with conflict management mechanisms has a more satisfactory partner relationships and therefore can achieve more than do firms without such internal mechanisms. The former would know how to handle conflict, prioritize their partner relationships, and be careful to prevent conflicts from escalating, whereas JVs with poor partner relationships may not consider conflict management necessary even when they are experiencing conflict, or may not know how to implement conflict management techniques. In contrast, building a relationship based on mutual trust between two parties is crucial as a countermeasure to minimize the side effects of joint ventures and improve long-term outcomes (Madhook, 2006). Although the importance of trust formation with partners has been discussed as a success factor in international joint venture investment, research on conflict resolution management that affects trust formation hardly exists.

Against this background of research necessity, we develop an inter-partner fit mechanism to build a sustainable relationship in the context of IJVs. This inter-partner fit mechanism consists of relational capital (Thuy and Quang, 2005), cultural adaptation (Kim Joo-Heon and Parkhe, 2009) and mutual commitment (Chetty and Eriksson, 2002). Even though these concepts have been regarded critically in the current literature as antecedents to build successful inter-firm collaborations, they have rarely been considered or empirically tested as conflict resolution mechanism. By reconceptualizing them as inter-partner fit mechanism that positively influences conflict management and thereby IJV performance, this paper contributes to the current literature of sustainable management and international business management. In addition to examining the relationship between inter-partner fit and conflict

management, our study also conducts a detailed analysis of relationships among the components of the inter-partner fit mechanism. Accordingly, our study suggests that conflict negatively influences the level of accomplishment attained by a JV, the levels of satisfaction within the partner relationship, and the maintenance of a good partner relationship.

Our study focuses on a conflict resolution of Korean-Japanese JVs, providing meaningful insights to the larger context of international JVs. Specifically, Korea represents a semi-developed country while Japan represents a developed country. Although these two nations are located in Northeast Asia, there might be a significant psychic difference between them. In addition, many of Koreans have a historical and political animosity against Japan. We attempt to contribute to the literature and the practices of conflict management by providing new insights on how these dynamic relationships within Korean-Japanese JVs differ from the previously explored regions such as North American context. The reminder of this paper is organized as follows. In the next section, the literature review of antecedents to conflict management in business relationships is provided. In the third section, we provide conceptual framework that presents key variables. Next, we define and explain relationships by developing hypotheses. Subsequently, we address our research method and analysis and results. Finally, we discuss our research implications and the limitations of the present study in addition to future research directions.

## 2. Literature Review

In this section, we first provide a review of conflict management literature followed by inter-partner fit mechanism. Next, we develop a theoretical framework that explains relationships among inter-partner fit, integrated conflict management and joint venture performance. Finally, we hypothesize these relationships.

### 2.1. Conflict Resolution and Management

Literature has suggested that conflict management plays an important role in determining organizational goals and maintaining the individual and psychological stability of organizational members (Maravelas, 2005). Ruble and Thomas's conflict management model (1976) indicated that conflict management consists of two dimensions, cooperativeness and assertiveness. Cooperativeness is defined as satisfying the main interests of the partner, while assertiveness is defined as satisfying one's own main interests. In addition, Ruble and Thomas (1976) suggested that conflict management strategy can be divided into five subtypes: competition, collaboration, compromise, avoidance, and accommodation. Thomas (1976) proposed an appropriate strategy to adopt changes according to the situation of an organization. Competing is a strategy that attempts to process conflict by overwhelming the partner in order to satisfy one's own main interest and is used when an important issue renders it impossible to concede one's ground or when decision-making is subject to time constraints. This strategy is like Lin and Germain's forcing strategy (1998). Collaborating is an ideal strategy in the sense that it can satisfy the main interests of both parties and is used when cooperation is sought so that the opinions and insights of organizational members may be integrated into the decision-making process. Compromising is a unilateral, partially satisfying strategy that requires sacrifice by both parties and, like collaborating, can be described as a universal conflict resolution strategy (Lin and Germain, 1998). It is used when both parties possess similar organizational power, want to accomplish mutually exclusive goals or to solve a complex problem in a single attempt, and are forced by time pressures to adopt a shortcut

method. Avoiding is a strategy wherein the JV parties do not engage in open conflict and is used when it is more important to maintain the status quo than it is to solve a problem, or to allow the partner to compose him or herself and to recover reason. Finally, accommodating is a strategy that focuses on satisfying the partner's main interest while discarding one's own main interest and is used when harmony or stability is important, when the resulting loss will be minimal, or when one is overwhelmed by the partner.

Thuy and Quang's research (2005) also delineated the relationship between conflict management and the formation of trust. Unlike other studies, their research explored the conflict situations experienced by organizations and focuses on flexible management that complies with the organizational environment. The results of this research suggested that the ability to resolve conflict is largely determined by an ability of organizations to implement conflict management strategy. In effect, they demonstrated that the existence of conflict is not a big problem if it can be settled via the proper channels. Finally, Lu (2007) analyzed the relationship between conflict resolution strategy ((1) problem-solving, (2) compromising strategy (3) forcing, and (4) legalistic strategy) and JV's performance. This is the first research that examined the relationship between the dispute resolution strategy and the outcome of the international joint venture. This research suggested that conflict resolution strategies have a positive impact on the financial outcome and satisfaction of the joint venture and the relationship with partners. Drawing from Lin and Germain (1998)'s and Thuy and Quang (2005)'s problem-solving strategies, our study develops integrative conflict management in relation to inter-partner fit and its impact on joint venture performance.

## 2.2. Inter-partner Fit Mechanism

Cho Dong-Sung (2004) proposed a theory built on mechanism-based view, a process where chief executive officers (hereinafter referred to as CEOs) could keep track of the significance or meaning of environment and utilize or create the resources necessary to map out and implement the strategies in such a way that corporations are able to adapt themselves to or spearhead such changes. Depending on this mechanism-based view towards joint venture we may argue that subject fit represents the trust among the CEOs of alliance partners (relational capital) and the environment represents the difference in corporate cultures among alliance partners (cultural adaptation). Also, corporate resource represents the utilization of resources which are necessary to maintain the alliance relationship continuously (mutual commitment).

We consider inter-partner fit mechanism as three dimensions: subject fit (relational capital), environmental fit (cultural adaptation), and resource fit (mutual commitment). Subject fit puts an emphasis on leadership ability of a CEO (Hambrick and Mason, 1984). Environmental fit focuses on analyses of industrial structure (Porter, 1980), while resource fit considers internal capability or competency of corporations as the driving force for success (Barney, 1991).

### 2.2.1. Relational Capital

Traditional research on conflict resolution has emphasized the role of trust between partners in arriving at an agreement. Sherman (1992) pointed out that the biggest barrier for JVs or alliances between corporations was a lack of mutual trust, and Parhke (1993) stressed that mutual trust could reduce discord between JV partners and increase internal organizational efficiency. Nevertheless, trust alone was found to be insufficient to strengthen a corporation's business accomplishments (Mcevily and Marcus, 2005). Its role has been often limited to facilitate the sharing of information between corporations and to cultivate confidence in that information.

Relational capital is considered an important resource for a JV to improve its competitiveness. Many scholars have considered relational capital to be the most important element for maintaining a JV relationship and defined it to include qualities such as mutual trust, respect, understanding, and close friendship between organizations in business partnership (Castro and Roldán, 2013). It goes beyond mere trust between partners but covers the broader qualities such as mutual trust, respect, and understanding. It is an important determinant of the quality of JV relationships (Thuy and Quang, 2005). It is a dynamic concept that affect flexibility and information sharing within JVs, while mutual trust has a static meaning (Capello and Faggian, 2005). People who possess relational capital often endeavor to maintain a partner relationship even if conflict with that partner exists. Accordingly, they frequently manage to devise a mutually satisfactory solution.

### *2.2.2. Cultural Adaptation*

Cultural adaptation is defined as a firm's efforts to understand and accommodate differences between cultures (Lin and Germain, 1998) and involves learning a partner's corporate culture and management style and techniques in order to get along with the partner. Gudykunst and Kim Young-Yun (1984) argued that cultural adaptation is generated when the members of an organization attempt to conform to a new environment. Corporate culture is often regarded as a type of culture and may even be the culture of the nation to which the corporation belongs. While research on cultural adaptation often concerns national culture, business or corporate culture is often examined (Guiso, Sapienza, and Zingales, 2006; Hofstede, Hofstede, and Minkov, 2010).

Cultural adaptation is an action oriented rather than attitude oriented. In essence, it goes beyond passive consciousness or understanding of another culture to encompass proactive conduct, and thus, is dynamic by nature. Prior research has emphasized an attitudinal element of cultural adaptation, which involves recognizing or accepting the inevitability of differences between national cultures. In the 1990s, however, the concept of cultural adaptation has been expanded from the realms of management style and corporate culture to that of business management (Lin and Germain, 1998/1999). Chang, Hsin Hsin, Chuang, Shuang-Shii, and Chao, Shu Han (2011) argued that cultural adaptation is an important factor for relationships of partner companies which have different culture and positively affect performance. Therefore, it is important to learn and adjust the partner's culture and work process in order to achieve cooperation and efficiency (Weck and Ivanova, 2016). According to Weck and Ivanova (2013), a knowledge and understanding of culture issues are critical in the sense that they foster cultural adaptation of managerial activities to meet the needs and expectations of the business partner.

### *2.2.3. Mutual Commitment*

Mutual commitment is referred to as a belief in and acceptance of organizational goals and values, willingness to exert effort toward organizational goals, and a strong desire to maintain organizational membership. Mutual commitment often calls for partners to adopt a long-term perspective on their relationship with each other in order to better maintain the relationship. Some scholars have argued that it consists of making a short-term sacrifice in order to secure long-term profit (e.g., Dwyer, Schurr, and Oh Sejo, 1987), while others have contended that one should spare no effort in maintaining the partner relationship (e.g., Morgan and Hunt, 1994). Mutual commitment contributes to the successful maintenance of a JV corporation (Chetty and Eriksson, 2002). High levels of commitment motivate the prediction of future problems (Mohr and Spekman, 1994), assist individuals or JVs to achieve

their goals without resorting to opportunistic tactics (Lin and Germain, 1998), and thereby, enable them to deliver improved performances (Sarkar, Cavusgil, and Aulakh, 1999). Morgan and Hunt (1994) proposed trust and commitment as key variables as the basis of cooperative behavior. According to Youcef, Djelloul, and Abderrezak (2015), the presence of commitment in trade cultivates the trust shared between two parties starting a business relationship. The sustainability of a relationship motivates members to work together in pursuit of goals and mutual benefits for the members of the relationship (Chenet, Dagger, and O'Sullivan, 2010; Van Vuuren, Roberts-Lombard, and Van Tonder, 2012).

### 2.3. Theoretical Framework

Our study investigates the overall relationships among inter-partner fit, integrated conflict management, and JV performance. Inter-partner fit is operationalized with variables such as subject fit (relational capital), environmental fit (cultural adaptation), and resource fit (mutual commitment). First, we examine how these inter-partner affects each other. Next, we hypothesize how their relationships affects integrated conflict management. Finally, the relationship between integrated conflict management and JV performance is examined.

### 2.4. 2Inter-partner Fit and Integrative Conflict Management

As mentioned above, we propose subject fit (relational capital), environmental fit (cultural adaption), and resource fit (microsoft) as inter-partner fit mechanisms, and suggest causal relationships among these fits. First of all, with respect to the relational capital, this concept is basically embedded in relationships formed through long-held interactions (Granovetter, 1992). Shapiro and Varian (1999) discussed that in the age of the network economy, fundamental changes in the enterprise are driven by networks of diverse stakeholders and that the relational capital generated in the network through partnerships with external stakeholders are important. Specifically, extant studies have suggested that the relative capital is not only a feature of social relationships within an enterprise (e.g., Kostova and Roth, 2003), but can also be conceptualized as a kind of resource that reflects relationships between companies (e.g., Griffith and Harvey, 2004). The resource-based theory suggests that resources held by an enterprise can enhance its capabilities and that capability can enhance its performance and that the relational capital can also enhance its capabilities (Barney, 1991).

Second, according to the social capital theory, the trust-based relational capital activates communication and information sharing between trading partners (Kale, Singh, and Perlmutter, 2000), provides opportunities and channels for creating an exchange of information and knowledge between parties (Tsai and Ghoshal, 1998). In addition, various studies have suggested that higher levels of relative capital have a more open view of partners. Because there is a high level of mutual trust, respect and because a friendship between partners in which a high level of relational capital is formed (Kale, Singh, and Perlmutter, 2000), it naturally becomes a consensus and a sense of communication through close interaction if this process is repeated in the long run (Sinkula 1994). Cousins et al. (2006) presented that relational capital such as trust could not be easily imitated in the sense that it could be formed through consistent transaction practices over a long term but could have a real effect on efforts to improve mutual engagement and common performance.

In summary, a high level of relational capital can enhance a firm's ability to learn and understand partners, to establish common goals with the other party, and to engage with each other. Nonetheless, learning and understanding partners is related to cultural adaptation, and mutual goal setting and mutual immersion with others is a concept related to mutual

commitment. The positive effects of this relational capital are also found in JV-related studies. For example, Lin and Germain (1999) argued that mutual trust and commitment are important factors inducing partners into cultural adaptation, while Gudykunst and Kim Young-Yun (1984) emphasized cultural adaptation, which is defined as making the maximum effort to maintain and reinforce a relationship with a business partner. Cultural adaptation must be built upon mutual trust, which is the foundation of a JV relationship and the most important element in sustaining such a relationship (Kale, Singh, and Perlmutter, 2000). Relational capital, which includes the concept of mutual trust, is a basis on which cultural adaptation and mutual commitment is developed and is an important element in predicting the presence and state of cultural adaptation and mutual commitment within a JV. Therefore, it is hypothesized that:

*H1. Relational capital positively influences cultural adaptation.*

*H2. Relational capital positively influences mutual commitment.*

IJVs partnerships from different cultures are more likely to fail than are domestic JVs because IJVs should contend with cultural differences, which confront the business managements of both parties with much conflict and role ambiguity (Bisseling and Sobral, 2011; Jia, Rutherford, and Lamming, 2016). In attempting to leapfrog large cultural differences, negotiators may try to solve conflicts through strategic force. As a result, JVs often break down because misunderstanding, mistrust, and conflict between the partners intensify and cause their relationship to deteriorate. Cultural adaptation is essential to build and maintain effective, successful, and long-term relationships within an organization (Kim Joo-Heon and Parkhe, 2009). It also focuses on long-term rather than short-term profit (Moorman, Deshpandé, and Zaltman, 1993). By implementing cultural adaptation policies, firms participating in a JV would become better placed to minimize problems relating to partner conflict. Thus, it is hypothesized that:

*H3. Cultural adaptation positively influences integrative conflict management.*

Evidently, commitment is an important ingredient in the success of a JV while it is not easy to develop. Each of firms participating in a JV has its own goals and prioritizes its relationship with its headquarters, according to whose aims the strategy of the overseas JV changes. When this occurs, the commitment level of the corporation often drops, its relationship with its partner deteriorates, and it becomes unwilling to make sacrifices in the interests of the JV (Morris and Cadogan, 2001). Accordingly, the most important cornerstone of the JV—collaboration—collapses, thereby giving way to conflict. Because JVs cannot achieve anything without collaboration, termination of the venture relationships becomes the most realistic outcome. In order to avoid this situation, relationship parties should increase the level of commitment to their JV so that they can maintain a good long-term relationship and substantially reduce conflict within the relationship. High commitment levels often signify that JV partners are collaborating, demonstrate that they are willing to accommodate the business interests and cultural attributes of their partner, and help to reduce inter-partner friction and create a satisfactory partner relationship. When conflict occurs, it is resolved using problem-solving techniques rather than force or legal methods so that the relationship is maintained. Lin and Germain (1999) described cultural adaptation as the mutual efforts of partners to understand the management methods, management style, and corporate culture of the other. Many other scholars have stressed the need for corporations to experience the



pains of culture adaptation and to make continuous and steady effort in that direction. Accordingly, they should endeavor to establish mutual commitment so that each will be willing to accommodate the systems of the other. Therefore, it is hypothesized that:

*H4. Mutual commitment positively influences integrative conflict management.*

*H5. Mutual commitment positively influences cultural adaptation.*

## 2.5. Integrative Conflict Management and JV Satisfaction

Satisfaction levels within an organization are often related to the suitability of the organization's management style for its situation (Lin and Germain, 1998) and to a collaborative approach reducing conflict, increasing efficiency, and improving satisfaction levels. In contrast, an irrational approach to conflict often degrades organizational efficiency and increases conflict levels (Weider-Hatfield and Hatfield, 1995). Integrative conflict management often facilitates open exchanges of opinion, which allow organizations to solve problems together, thereby avoiding the worst possible situation in a JV—a deadlock—and leading it to success over the long term (Dechurch and Marks, 2001). JVs that maintain good long-term relationships with their partners can engage in constructive communication and exchange information regarding firm practices such as daily business management and operation procedures (Olson and Singsuwan, 1997). This establishes a smooth communication process, which increases the likelihood that dissatisfaction or potential conflict with a partner can be prevented or recognized and resolved at an early stage (Lin and Germain, 1998). In addition, the collaborative approach encourages both parties to cooperate in creating satisfactory solutions to conflicts and indicates a favorable partnership (Mohr and Spekman, 1994). Accordingly, integrative conflict management can lessen conflict and increase satisfaction levels within a JV. Thus, it is hypothesized that:

*H6: Integrative conflict management positively influences JV performance.*

## 3. Research Method

### 3.1. Sample and Data

To test hypotheses, we sent a questionnaire to Japanese firms operating JVs in Korea. The purpose of the questionnaire was to reveal whether levels of satisfaction within a JV increase when conflict management techniques are used to reduce the conflicts that usually arise between JV partners. The questionnaire was two sheets long and was delivered to the directors of the firms and their superiors. These JVs were selected from the three following resources: Foreign Business Contracts in Korea, Maeil Business Newspaper Annual Collaborating Reports, and the Yearbook of Japanese Investments Overseas. We received 119 completed responses. The response rate was 21.8%. The questionnaires were sent to 547 JVs located in these regions. Eventually, a total of 109 responses were used in the final analysis.

As shown in Table 1, the characteristics of the JVs that responded, which operate manufacturing, non-manufacturing (service industry, distribution, etc.), and financial businesses. Of all respondent firms, 11.8% comprise less than 20 people, 17.6% consist of 20 to 50 people, 10.9% employ 50 to 100 people, 23.5% engage 100 to 300 people, 16.8% boast a staff of over 300 people, and 19.3% provide no answer or indicate that this



information is confidential. Since the greatest proportion of respondent firms (23.5%) possesses between 100 and 300 employees and the second highest proportion possesses more than 300 staffers, we infer that the Japanese side of Japanese-Korean JVs in Korea has large scale investments in Korea. The results of the questionnaire showed that most of the JVs are headed by Korean presidents. Specifically, 75 JVs (63.0%) are led by Korean nationals, while 26 (21.8%) are led by Japanese citizens. A further 18 (15.1%) of JV presidencies are jointly represented by individuals from both countries. This shows that many Japanese partners have appointed Koreans to the presidencies of their JVs with Korea.

**Table 1.** Characteristics of Respondents

Number of Employees		Sector	
~ 20	14 (11.8%)	Electronics and computer products	17 (14.3%)
20 ~ 50	32 (17.6%)	Industrial Machinery	17 (14.3%)
50 ~ 100	13 (10.9%)	Foods	11 (9.2%)
100 ~ 300	28 (23.5%)	Chemicals	11 (9.2%)
Over 300	20 (16.8%)	Engineering	11 (9.2%)
Non-responses	23 (19.3%)	Transportation	9 (7.6%)
Relationship Period (year)		IT	7 (5.6%)
~ 10	30 (25.2%)	Consumer products	6 (5.0%)
10~20	41 (34.5%)	Medical supplies and instruments	5 (4.2%)
20~30	22 (18.5%)	Metal	5 (4.2%)
30~40	24 (20.2%)	Textile	5 (4.2%)
CEO Personality		Petroleum	2 (1.7%)
Korean	75 (63.0%)	Advertising	2 (1.7%)
Japanese	26 (21.8%)	Entertainment	2 (1.7%)
Co-representative	18 (15.1%)	Etc.	9 (7.6%)

Finally, the electrical and electronics industries account for 17 JVs, as does the machinery industry. These industries account for the majority of the participating JVs, which supply parts such as liquid crystal displays (LCDs) and semiconductor parts to corporations such as Samsung Electronics and LG Electronics. In fact, many JVs are founded for such purposes. The findings also show that 11 large Japanese corporations in the chemical industry, such as Asahi Chemicals, Toray, and Mitsui Chemicals, have forged a presence in Korea through the establishment of JVs. In addition, food-related JVs have recently begun to multiply, as shown by the 11 food industry JVs in the sample which supply products, such as Mister Donuts (donuts), COCO Ichi (Curry), and IPPUDO (Japanese ramen restaurant), or operate Japanese restaurants in Korea.

In July 2008, the questionnaire was mailed to Japanese JV partner companies located in Korea. Due to the large number of such companies and the time and financial limits of the research, the sample was confined to JVs located in the metropolitan regions of Seoul, Gyeonggi-do, and Incheon. Copies of the questionnaire were mailed to 547 JVs located in these regions and responses were received from 119 companies, of which 109 provided valid data. With the data, we tested hypotheses proposed above by checking reliability, validity, and correlations

### 3.2. Measures

We employed Likert five-point scales and affirmed the convenience of respondents. The concepts underlying each research unit and measurement method are outlined in Appendix A.

#### 3.2.1. *Integrative Conflict Management*

In general, conflict management was formed by the problem-solving, compromise, and legalistic strategies. Based on Paul et al. (2004), our study defined conflict management as integrative conflict management. Integrative conflict management was measured by three items suggested by Thuy and Quang (2005) and modified based on extant research (Kale, Singh, and Perlmutter, 2000; Kuhn and Pooles, 2000; Paul et al., 2004; Rahim, Antonioni, and Psenicka, 2001). The measurement of integrative conflict management corresponded to the ability of a firm's management to resolve conflicts with its JV partner.

#### 3.2.2. *Relational Capital*

Relational capital is a dynamic concept that affects flexibility and information sharing within JVs (Capello and Faggian, 2005). The questionnaire incorporates items on relational capital, which were recommended by Thuy and Quang (2005) and adjusted to better reflect the purposes of our study. The measure of relational capital evaluated the levels of friendship, mutual trust, and mutual respect between JV partners.

#### 3.2.3. *Cultural Adaptation*

Cultural adaptation is defined as the efforts of a JV to understand and accommodate differences between cultures. To measure cultural adaptation, we employed items suggested by Lin and Germain (1999) and amended the items slightly in accordance with the purposes of our study. We measured cultural adaptation on a five-point Likert scale to assess the extent to which JV partners adapt to the culture or management style of their collaborators.

#### 3.2.4. *Mutual Commitment*

We measured the cooperation of JV partners with the efforts of their partners to organize these JVs, the importance of JV organizations, the value of efforts to maintain this importance, and the level of recognition. To measure mutual commitment between two parties of a JV, we used items proposed by Morgan and Hunt (1994) and modified the items to comply with the aims of our study. Mutual commitment was measured on a five-point Likert scale to evaluate the willingness of JV partners to commit to and maintain the relationship with their partners.

#### 3.2.5. *International Joint-venture Performance*

IJV performance is often measured by the levels of satisfaction, financial accomplishment, stability, technology transfer, and export competitiveness (Osland and Cavusgil, 1996). Many researchers have argued that it may be subjectively measured (Geringer and Herbert, 1991; Yan and Gray, 1994). In addition, Chandler and Hanks (1994) contended that the subjective levels of satisfaction experienced by JV partners would be relevant to the most objective measures with a high degree of reliability. Finally, JV performance was measured on a five-point Likert scale assessing relational satisfaction.

## 4. Analysis and Results

To test the proposed hypotheses, we employed a structural equation model in the present study. Data were analyzed through a partial least square (hereinafter referred to as PLS) analysis and a multiple regression analysis.

### 4.1. Measurement Model

In terms of the measurement model, reliability and validity were confirmed. Cronbach's alpha was checked for reliability, and factor loading, the average variance extracted (hereinafter referred to as AVE), and the composite reliability were examined to confirm the convergent validity. First, all values of the standardized loadings were greater than .50 without three indicators for mutual commitment, integrative conflict management, and cultural adaptation. In addition, AVE is greater than .50 and CR is greater than .70 to meet the criteria (see Appendix B). And as shown in Appendix B, Cronbach's alpha also met the threshold.

Next, discriminant validity was confirmed. In order to confirm the discriminant validity, the criteria of cross-loading and Fornell and Larcker (1981) were checked. First, in the case of cross loading, the loading of each construct's indicators was greater than that of other constructs' indicators (see Appendix B). The square root of the AVE is also larger than all of the inter-construct correlations (see Table 2). Therefore, the discriminant validity was confirmed.

**Table 2.** Descriptive Statistics and Correlations among Major Constructs

	Mean(SD)	MC	ICM	CA	RC	IJVP
MC	4.168(.656)	<b>.793</b>				
ICM	3.448(.758)	.758	<b>.783</b>			
CA	3.818(.668)	.611	.597	<b>.760</b>		
RC	3.789(.716)	.583	.383	.489	<b>.789</b>	
IJVP	3.450(.866)	.466	.657	.406	.492	<b>.898</b>

**Notes:** 1. root AVEs are in bold.

2. MC=Mutual Commitment, ICM=Integrative Conflict Management,  
CA=Cultural Adaptation, RC=Relational Capital,  
IJVP=International Joint Venture Performance.

### 4.2. Common Method Bias Assessment

To test the common method bias, we first performed the Harmon one-factor test. As a result, covariance explained by one factor was 36.43%. Next, the common method bias was tested using the method proposed by Podsakoff et al. (2003). For this analysis, a common method factor was added to the proposed research model. Next, we identified each indicator's variances explained by constructs and common method factors. The results demonstrated that the average substantively explained variance of the indicators was .66, while the average method-based variance is .011. The ratio of substantive variance to method variance was about 60:1. In addition, most method factor loadings were not significant.

### 4.3. Hypothesis Tests

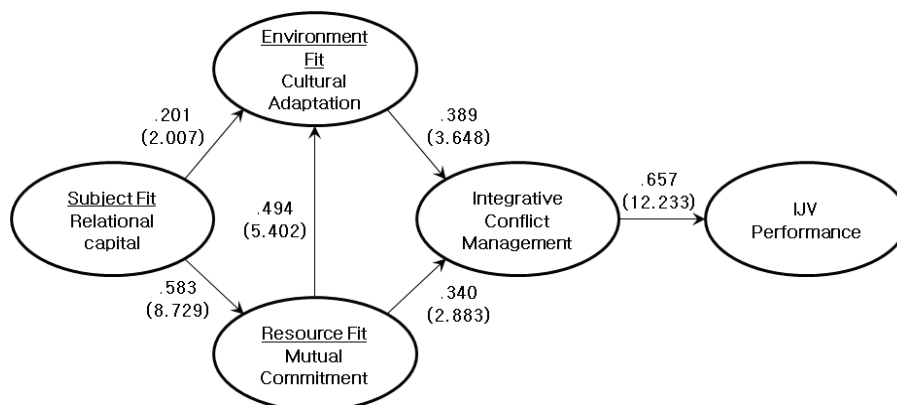
We first checked the structural model for collinearity issues. In addition, variance inflation factor (VIF) was calculated using PLS-SEM. When the VIF value is over 5, there

is potential collinearity problems (Hair, Ringle, and Sarstedt, 2011). Table 3 shows the VIF values. As we can see, all VIF values are clearly below the threshold of 5. Accordingly, we conclude that collinearity among the predictor constructs is little problematic in our structural model.

**Table 3.** Collinearity Assessment

Outer VIF Value			
<u>Relational Capital</u>		<u>Mutual Commitment</u>	
RC1	1.642	MC1	1.643
RC2	2.679	MC2	2.914
RC3	2.969	MC4	1.454
RC4	2.132	MC5	2.391
RC5	2.300	MC6	3.063
<u>Cultural Adaptation</u>		<u>Integrative Conflict Management</u>	
CA1	1.259	ICM1	1.530
CA2	1.256	ICM2	2.001
CA3	1.235	ICM3	2.288
<u>IJV Performance</u>		ICM5	1.437
IJVP1	4.566	ICM6	1.150
IJVP2	2.452		
IJVP3	4.710		
IJVP4	4.128		
Inner VIF Value			
<u>first set</u>		<u>second set</u>	
<u>(DV=Cultural Adaptation)</u>		<u>(DV=Integrative Conflict Management)</u>	
construct	VIF	construct	VIF
Relational Capital	1.514	Cultural Adaptation	1.596
Mutual Commitment	1.514	Mutual Commitment	1.596

Fig. 1 presents the estimates obtained from PLS analysis. H1 posited that integrative conflict management correlates positively with JV performance. This hypothesis was supported by an analysis showing that the correlation coefficient is positive and statistically significant ( $\beta=.651$ ,  $t=12.233$ ,  $p=.000$ ). H2a submitted that relational capital correlates positively with cultural adaptation. The coefficient of the two variables was positive and statistically significant ( $\beta=.201$ ,  $t=2.007$ ,  $p=.047$ ); thus, supporting H2. H2b suggested that relational capital correlates positively with mutual commitment. The coefficient was positive and statistically significant ( $\beta=.583$ ,  $t=8.729$ ,  $p=.000$ ), and supports the hypothesis. H3 proposed that cultural adaptation correlates positively with integrative conflict management. The coefficient was positive and statistically insignificant ( $\beta=.389$ ,  $t=3.648$ ,  $p=.000$ ), thereby supporting H3. H4a suggested that mutual commitment correlates positively with cultural adaptation. The coefficient was positive and statistically significant ( $\beta=.494$ ,  $t=5.402$ ,  $p=.000$ ), thus supporting H4a. Finally, H4b proposed that mutual commitment correlates positively with integrative conflict management. The coefficient was positive and statistically significant ( $\beta=.340$ ,  $t=2.883$ ,  $p=.005$ ), thereby supporting H4b. In addition, total effects were identified, all of which were statistically significant (see Appendix C).

**Fig. 1.** PLS Analysis of Results

**Note:** The values in parentheses are t-values.

On the other hand, according to Geisser (1974) and Stone (1974), Stone-Geisser's  $Q^2$  should be examined as a criterion of predictive accuracy in addition to evaluating the magnitude of the  $R^2$ . This measure is an indicator of the model's predictive relevance. So, we run the blindfolding procedure of PLS to assess the predictive relevance of the path model, and calculated  $Q^2$  for mutual commitment, cultural adaptation, integrative conflict management, and IJV performance. Table 4 provides the values (along with the  $R^2$  values) of all endogenous constructs. All  $Q^2$  values are considerably above zero, thus providing support for the model's predictive relevance regarding the endogenous latent variables.

**Table 4.** Results of  $R^2$  and  $Q^2$  Value

Endogenous latent variable	$R^2$ value	$Q^2$ value
Mutual Commitment	.340	.207
Cultural Adaptation	.400	.215
Integrative Conflict Management	.429	.261
IJV Performance	.431	.333

In addition to evaluating the  $R^2$  values of all endogenous constructs, the change in the  $R^2$  value when a specified exogenous construct is omitted from the model can be used to evaluate whether the omitted construct has a substantive impact on the endogenous constructs. This measure is referred to as the  $f^2$  effect size. Similar to the  $f^2$  effect size approach for assessing  $R^2$  values, the relative impact of predictive relevance can be compared by means of the measure to the  $q^2$  effect size. Guidelines for assessing  $f^2$  and  $q^2$  effect size are that values of .02, .15, and .35, respectively, represent small, medium, and large effects (Cohen, 1988) of the exogenous latent variable.

Table 5 summarizes the results of the  $f^2$  and  $q^2$  effect sizes with respect to all the relationships in the model. As can be seen, the exogenous constructs, relational capital and mutual commitment for explaining the endogenous, latent variable cultural Adaptation have  $f^2$  effect sizes of .037 and .240, and  $q^2$  effect sizes of .013 and .103. The  $f^2/q^2$  effect size from mutual commitment and cultural adaptation to integrative conflict management is .140/.066 and .163/.081. Accordingly, the  $f^2$  and  $q^2$  effect size of relational capital on

cultural adaptation is small, but the  $f^2$  effect size of mutual commitment on cultural adaptation is above medium, and the  $q^2$  effect size of their relationship is medium. Moreover, the effect sizes of mutual commitment and cultural adaptation on integrative conflict management are medium.

**Table 5.**  $f^2$  Effect Size and  $q^2$  Effect Size

	<u>Cultural Adaptation</u>			<u>Integrative Conflict Management</u>	
	$f^2$ effect size	$q^2$ effect size		$f^2$ effect size	$q^2$ effect size
Relational Capital	.037	.013	Mutual Commitment	.140	.066
Mutual Commitment	.240	.103	Cultural Adaptation	.163	.081

## 5. Conclusion

### 5.1. Discussions and Implications

Our research clearly showed that conflict negatively affects the level of accomplishment attained by JV partners, the levels of satisfaction within the partner relationship, and the maintenance of a sustainable partnership. The results of hypothesis tests are discussed below.

First, we accepted H1 and H2, which assert that relational capital positively influences cultural adaptation and mutual commitment. These findings suggested that JV partner relationships are based on mutual trust, which fosters the belief in the value of commitment to understanding the corporate culture and management style of the partner, and to the JV itself. Our study confirmed that mutual trust is an important determinant of cultural adaptation and mutual commitment.

Second, we failed to accept reject H3, which contends that cultural adaptation positively influences integrative conflict management. Surprisingly, this finding is not in line with prior research results suggesting that cultural adaptation has a negative positive impact on integrative conflict management. In this respect, cultural adaptation does not always lead to a positive effect on conflict management; it makes sense that behaviors focusing on corporate culture, organizational culture, and management style of partner show a trend of not carrying out conflict management positively instead when conflicts occurred because they consider relationship with counterpart important. Nonetheless, we strongly supported the idea that a JV party strongly motivated to adapt to the culture of its partner can consider the partner relationship important and thus are more likely to initiate collaborative problem-solving measures when conflict occurs.

Third, we accepted H4, which posits that mutual commitment positively influences integrative conflict management. Moreover, we accept failed to reject H5, which postulates that mutual commitment has a positive effect on cultural adaptation. We found that the link between the two constructs is strong. This finding establishes that, in addition to mutual trust, mutual commitment plays a crucial role in maintaining a JV partner relationship. Furthermore, we indicated that organizations that believe mutual commitment strengthens long-term accomplishments despite requiring a certain amount of self-sacrifice little avoid conflict but prefer to confront it in a positive manner. Likewise, organizations exhibiting high levels of commitment to the partner relationship tend to adopt a positive attitude toward learning the culture, style, and habits of partner corporations. Accordingly, mutual commitment mediates mutual trust and conflict management.

Fourth, we accepted H6, which states that integrative conflict management are positively related to JV performance, or to the levels of satisfaction regarding business performance and the JV partner relationship. Moreover, the findings revealed that the levels of satisfaction are strongly influenced by factors such as the existence of conflict management mechanisms, the monitoring and resolution of potential conflict, two-way channels of communication for conflict resolution, and the involvement of the senior managements of both partners in resolving conflicts.

In summary, the results of our study imply that it is important for firms participating in a JV to construct and reinforce an inter-partner fit mechanism for building sustainable partnerships. In addition, relational capital, cultural adaptation, and mutual commitment could influence conflict reduction and the level of satisfaction experienced in JVs. Furthermore, organizations that are relatively satisfied within a JV generally could exhibit the inter-partner fit mechanism described in our study. However, we found that organizations with high levels of relational capital and strong cultural adaptation capabilities do not embrace integrative conflict management even when conflict arises due to the tendency to conform to their partners. Therefore, it is more important for business managers or CEOs working for JVs to reinforce mutual commitment than to strengthen relational capital, cultural adaptation, or mutual trust, even though the last three assists in suppressing conflict and in maintaining good partner relationships.

## 5.2. Limitations and Future Research

Despite contributions we made to the current research stream, our research is not void of limitations for the following reasons. First, our sample consists only of Korean-Japanese JVs located in metropolitan areas of Korea in the sense that large firms located in Korea are heavily concentrated in the areas. Because many JVs still exist in the suburban area, the results of our study may not be generalized. Second, we considered only Korean-Japanese JVs. Therefore, it would be necessary to collect data from not only Korean-Japanese JVs but also other JV combinations. Third, firms in the sample showed a tendency to avoid negative situations or serious conflicts. Thus, some of our findings are based on limited quantities of data and may need to be further verified by future researchers. Fourth, recall bias is a potential limitation of our study. Because of the nature of the survey method, we asked respondents to recall their experiences. Recall bias can be a threat in these circumstances, as they may not have accurate recall of their experiences. Finally, our study did not consider share ratio of stock, a relatively important element in conflict management. This omission may be significant in the sense that share ratio can determine a firm's choice of strategic behaviors regarding conflict management. Accordingly, future research should analyze the relationship between share ratio and conflict management.

We examined the relationships among relational capital, cultural adaptation, and mutual commitment, the inter-partner fit variables that may establish relationships between corporations participating in JVs. Nevertheless, other variables may have a significant effect on sustainable JV partnerships. The three aforementioned inter-partner fit variables were selected from Cho Dong-Sung and Lee Dong-Hyun's classification (1998) of the sustainable management mechanism. Nonetheless, this mechanism should be further analyzed and expanded in the future research. Because our study examined only Korean-Japanese JVs, the results cannot be generalized to all JVs operating in Korea. Future research may compare JVs developed by Korean and U.S. firms, Korean and European ones, and Korean and other Asian firms.



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