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Distinctive Features of Domestic and International Joint Ventures¹

Abstract

- The literature on joint ventures has evolved in two parallel directions: the study of domestic and international joint ventures. In the case of international joint ventures it is emphasized their character as a means for international expansion and in the case of domestic joint ventures, their potential for collusion and organizational learning.
- In this paper we analyse two different data bases collecting joint ventures created by Spanish firms with the purpose of obtaining the profile of both types of joint ventures.

Key Results

- Our results confirm the existence of important differences between them: fewer number of partners and a less balanced distribution of equity in international joint ventures. These differences result from the different objectives aimed by international joint ventures in relation to the domestic ones. An important practical implication of these two different profiles is that each type of joint venture has organizational and managerial problems of different nature.

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Introduction

The joint venture has been one of the contractual forms most frequently used in strategic alliances (Marity and Smiley 1983, Ghemawat et al. 1986): two or more firms agree to set up a new entity, owned by them, to carry out some activities in which they are interested, although not necessarily for the same reasons.

The research on joint ventures is twofold: the study of domestic joint ventures – all partners with the same nationality – and international joint ventures – set up by partners of different nationalities –, the latter having been the most widely analysed. Although all of them participate of the same organizational structure, the aspects and problems studied differ greatly. The literature on international joint ventures, either in developed or less developed countries, analyse them as a means to put the international strategy of the firm into practice. The literature on domestic joint ventures has revealed that their formation contributes to restrict competition or to facilitate the transfer of technological knowledge.

Such circumstance has led us to think that the nationality of partners is not the only difference between domestic and international joint ventures: it seems that the decision to choose a domestic or international partner is influenced by the goals sought with the alliance. The hypothesis that we want to verify in this paper is whether the domestic or international character of a joint venture conditions its other features so that each type shows a visibly differentiated profile. The interest of the work is twofold: from the point of view of research on joint venture issues, it allows to contrast whether significant differences exist between them which justify the separate treatment they have received. From the point of view of the practice of management, the recognition of the distinctive features of domestic and international joint ventures will allow to identify the managerial problems and singularities affecting these companies, so that some practical recommendations for their management could be made.

In order to do that, we compare two data bases which include joint ventures created by Spanish firms. The first one – DB1 – has been built through the collection of news published by the economic press, and it comprises domestic and international joint ventures. The second data base – DB2 – consists of the joint ventures established by firms subsidized by the “Instituto de la Pequeña y Mediana Empresa Industrial” (IMPI) (Institute of Small and Middle Sized Industrial Firms), a public institution which depends on the Spanish Ministry of Industry and Energy. All joint ventures collected in this data base are domestic.

The structure of the paper is as follows: in the next section we offer a brief summary of the literature on domestic and international joint ventures. In section 3 we describe the main differences between domestic and international joint ventures resulting from the analysis of the above mentioned data bases. Finally, in section 4 we summarize and discuss the main results.

International and Domestic Joint Ventures

According to the literature on joint ventures, the main reasons given for their setting up are the following:

- *Improvement of efficiency.* The creation of a joint venture permits to achieve greater efficiency in the performance of certain tasks. This efficiency may derive from economies of scale and scope which are difficult to accomplish by a single firm, from the spreading of risks among partners, as well as from synergies which stem from the complementarity of the resources provided by the partners (Gullander 1976, Harrigan 1985, Contractor/Lorange 1988).
- *Learning or access to knowledge.* In joint ventures every partner has access to the knowledge and skills of the others. For example, when entering foreign markets, a local partner provides the joint venture, among other aspects, with a good knowledge of this market as to special needs of customers, channels of distribution available or the political situation of the country (Killing 1983, Berlew 1984, Schillaci 1987).
- *Political factors.* The existence of political factors which require or make advisable to cooperate with local firms is a frequent reason for the creation of international joint ventures (Friedmann/Kalmanoff 1961, Tomlinson 1970, Killing 1983). Such is the case when a foreign firm wants to enter countries with hostile governments and/or restrictive legislations.
- *Collusion or restriction in competition.* The creation of joint ventures can alter competition in favour of the parent firms. This fact has been analyzed by the pioneering studies on joint ventures (Fusfeld 1958, Dixon 1962, Mead 1967, Boyle 1968).

All these reasons have been studied in different depth according to the type of joint venture analyzed. As it was expected, the literature on international joint ventures has emphasized those aspects related to the capacity to enter new countries. It is a very vast literature that Parkhe (1993) has systematized around four lines of interest: motives for formation, partner selection, control/conflict and stability/performance. The first references are found in the literature on multinational firms, where joint ventures are analyzed as an alternative to the creation of wholly owned subsidiaries in the process of expansion of multinational firms (Friedmann/Kalmanoff 1961, Stopford/Wells 1972). This research line has been developed in recent works analyzing the choice of joint ventures versus wholly owned subsidiaries according to the transaction costs analysis (Gatignon/Anderson 1988, Gomes-Casseres 1989, Hennart 1991).² Generally speaking, these works sustain that two opposite forces operate in the decision to create a joint venture: the need to obtain resources from other partners (which leads to cooperation) and the desire to protect the assets which are the base of their distinctive

competences (which leads to expansion through wholly owned subsidiaries). Joint ventures are, therefore, presented in those works as a second best option in the process of internationalization of the company. All the same, other works studying joint ventures together with other alliances, reveal the way companies take advantage of them to compete globally (Harrigan 1984, Porter/Fuller 1986, Tallman/Shenkar 1994).

Anyway, all the literature on international joint ventures can be divided into two large groups of works: those which analyze joint ventures established in developed countries and those which analyze joint ventures established in less developed countries.³ The analysis of both groups of studies also show the existence of differences with respect to the orientation of the partners. As Beamish (1988, pp. 11–12) shows, the partner's knowledge about the local economy is the most important factor in developed countries, whereas in less developed countries the main factor is government persuasion or legislation.

Although there is a lesser number of studies on domestic joint ventures than on international ones, the reasons provided for the creation of the former are more numerous than for the latter. Obviously, those aspects related to the internationalization of firms have not been emphasized very much in the studies on domestic joint ventures. Such studies revealed that the formation of a joint venture might conceal or at least favour anti-competitive actions. This line of analysis has been mainly developed by industrial economists who analyzed antitrust policies, including the early works on joint ventures by Fuschfeld (1958), Dixon (1962) and Mead (1967). However, the debate on the effects of joint ventures on competition is still open (Shapiro/Willing 1990). Other works showed that the acquisition of technological know-how explained the formation of joint ventures (Berg et al. 1982).

All the reasons mentioned before for the creation of joint ventures could be considered as generic motives of cooperation, because all of these goals aimed at with the formation of joint ventures can be achieved through other contractual forms. In this sense, the works of Pisano (1989), Osborn and Baughn (1990), Contractor and Lorange (1988) and García-Canal (1996) focus on the choice between joint ventures and other forms of strategic alliances. The interest of these works lies in the fact that there is no need for several firms that are willing to cooperate to set up a new entity, owned by them, to coordinate the activities for which the cooperation has been started. They can sign a contract – contractual agreement – which includes the rights and obligations of the parties and regulates the relations among them, without a need to create a new firm. That is why the features which characterize both domestic and international joint ventures are also determined by the propensity to create joint ventures over contractual agreements. This propensity has been analyzed by García-Canal (1996), who sustains that joint ventures are chosen as contractual forms to organize cooperative activities of some complexity. This proposition is based upon the fact that in the case of simple

alliances the parties can govern the relation by means of contracts without incurring the additional costs which derive from joint ventures: the set up and running costs of a new entity, legally independent from the partners. When contrasting this proposition empirically – using data from DB1 – he found two types of complexity which had an influence on the propensity to form joint ventures, although in different degrees related to the nationality of the partners. In international agreements, the most influential factor in the formation of joint ventures over contractual agreements was strategic complexity: the need to learn about the characteristics of the local market of at least one of the partners, so that the performance of the joint activities overlaps with a relation of transfer of know-how. In domestic agreements, the most influential complexity was organizational: number of partners and scope of the activities, aspects which make difficult the global tasks of coordination and control.

Characteristics of Domestic and International Joint Ventures

In order to present a profile of domestic and international joint ventures, as well as to detect the differences derived from selecting a partner from a developed or a less developed country, two data bases have been analyzed (see Table 1 for a summary of their main characteristics).

The data base DB1 was built from information published in the Spanish economic press relative to cooperative agreements.⁴ In particular, the daily newspa-

Table 1. Main Features of the Databases Used in this Study

	DB1	DB2
Source of information	News about joint ventures created by spanish firms published in the Spanish economic press.	Deed incorporation of joint ventures promoted by IMPI (a public Spanish institution)
Years covered	1986–1989	1978–1993
Number of joint ventures	242	107
Nationality of the partners	33.88% domestic; 66.12% international (<i>there is, at least, one spanish partner</i>)	100% domestic
% created with government financial support	8.67%	100%
Other features	this data base is biased towards large firms	this data base is biased towards small and medium-sized firms

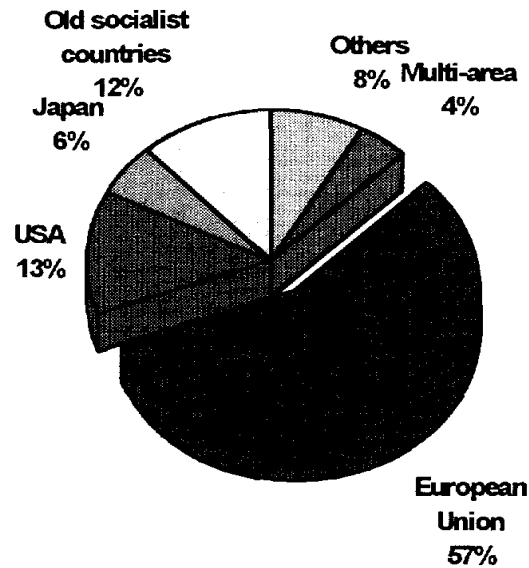
pers *Expansión* and *ABC-Diario de Economía*, as well as the journal *Actualidad Económica* were reviewed, in the period 1986-1989. In order to obtain a representative sample, only news published about Spanish firms were included, as the press tends to emphasize information which refers to its own country (Ghemawat et al. 1986). In particular, the data base collects all agreements (663 horizontal and vertical agreements) in which at least a Spanish firm has participated and whose formation was published in the press with a sufficient amount of relevant information (contractual form of the agreement, identification of all partners, functions of the agreement, among other features).

Although the press does not permit to elicit a comprehensive information of all circumstances surrounding the conclusion of a cooperation agreement, it can certainly be a reliable source to obtain information of the variables that are relevant for the analysis of these agreements with a certain degree of objectivity. We have collected information concerning the following variables: nationality of the partners, contractual structure, year in which the agreement was concluded, sector where the activity is to be developed, functional area to be covered by the agreement (R&D, production or marketing, or a combination of some of them), number of partners, location of the activity intended by the agreement and aims of the partners. With respect to this last variable we distinguish those agreements which imply, for at least one of the partners, to enter a new industrial sector or a new market area, from those not implying for any of them an international expansion or a product diversification. For that purpose we analyze the degree in which the activities subject of the agreement are related with the products and clients of the companies before such agreement.

DB1 includes 242 joint ventures, from which 82 were formed exclusively by Spanish firms (domestic) and 160 with at least a foreign partner (international). The most significant feature is that most of them (57%) have been formed with European partners. It is also significant the small weight of joint ventures with Japanese partners (5%), whereas those with American partners are much more numerous (13%). These results are similar to those obtained in previous studies: they show that European firms tend to carry out cooperative agreements with American firms rather than with Japanese firms (for instance, Morris/Hergert 1987, Doz 1990). It can also be pointed out that DB1 is biased towards large firms, due to the scarce attention paid by press to small firms. On the other hand, most of these joint ventures have been formed without public financial support. Only 21 out of the 242 joint ventures – 16 domestic and 5 international – have received public financial support.

The data base DB2 includes joint ventures formed through the “Programa de Acciones Colectivas” (Collective Actions Programme) promoted by the IMPI, a public Spanish institution which aims, through different programmes, at improving competitiveness of Spanish small and middle-sized firms (SMF). The Collective Actions Programme intends to encourage projects and activities that SMF

Figure 1. Nationality of the Partners in International Joint Ventures Included in DB1



would not be able to carry out individually in a competitive way, either due to their scarcity of financial resources or to their lack of technological or marketing expertise. IMPI participates in the equity of all these joint ventures by subscribing a maximum percentage of 45%, over a maximum period of three years, extendible to another three. The public aid has to be refunded to the IMPI at the end of this period. This data base includes 107 joint ventures formed between 1978 and 1993 under this programme. These joint ventures have characteristics that are complementary to those included in DB1, as:

- All joint ventures included in DB2 are domestic.
- All of them have been created by small and middle-sized firms.
- All partners belong to the same sector. This was not a requirement explicitly imposed by IMPI, but in practice the whole of the joint ventures were formed by firms belonging to the same sector.
- All of them have received public financial support.

For each of the joint ventures included in this second data base we have obtained, from the deed of incorporation, information relative to the following variables, among others: functional area, industry, number of partners, distribution of capital among partners.⁵

In the following paragraphs we present the main findings of our analysis for each of the variables studied.

Purpose of partners

The information gathered about joint ventures in DB1, allowed us to detect very significant differences concerning the purpose of the partners depending on the domestic or international character of the joint venture. As we observe in Table 2⁶, in most international joint ventures the initial purpose of, at least, one of the partners was international expansion. This purpose is much less frequent in domestic joint ventures. We speak about a difference which is consistent with the role of international joint ventures as a means for international expansion. A company entering a new market has the expertise accumulated in its home country⁷, and the main reason to require a partner is the lack of knowledge about this market. In order to overcome this it seems more advisable to find firms in the country of destination rather than cooperate with firms of its own country (establishing for instance exporting consortiums). This preference for foreign partners is determined by the knowledge they have about the characteristics of their local market and consumer needs, among other factors.

Table 2. Purpose of the Partners in Joint Ventures Included in DB1*

	Some of them seek international expansion	None of them seek international expansion	Cases
Domestic	17.1% (-10.2)	82.9% (10.2)	82
International J.V. in D.C.	81.9% (7.5)	18.1% (-7.5)	138
International J.V. in L.D.C.	100% (3.9)	0% (-3.9)	22
Total	61.6%	38.4%	242
Chi Square: 106.42 (2 d.f.) (p < 0.00001)			

* Adjusted standardized residuals in brackets.

On the other hand we have also noticed that the purpose to expand internationally appears in 100% of joint ventures with partners belonging to less developed countries, whereas this percentage is 81.9% in the case of developed countries. Again, it appears normal, and consistent with the evidences collected by Beamish (1988, pp. 11-2), already mentioned in section 2. Obviously, firms in developed countries dispose of resources and capacities, such as technological know-how, complementary with the mere knowledge of their market. A partner's desire to have access to the mentioned resources and capacities explains the creation of a part of international joint ventures. On the contrary, the reason to cooperate with

firms established in less developed countries – which have a smaller development and technological capacity – relies on their knowledge of the local market or on the existence of a restrictive legislation concerning foreign investments.

Functional Area

Table 3 shows the distribution of agreements relative to this variable. An important feature is the small amount of firms forming joint ventures to perform R&D activities at international level. Again this result is consistent with a vision of international joint ventures as a means of geographical expansion. As a company enters a new market with products already consolidated in its home country, additional R&D activities seem unnecessary. The lack of knowledge about the peculiarities of the goal market are not overcome through a cooperation in R&D activities exclusively but by activities that are closer to the final consumer. It is in activities related with production and marketing where the expanding company has better access to the knowledge about the local environment provided by the partner. It should also be remarked the absence of R&D agreements in joint ventures with partners from less developed countries, since partners from these countries do not possess a high technological level and are not, therefore, sought for R&D cooperation. We also notice that the highest number of joint ventures correspond to those formed to carry out several functional activities. It is to some extent understandable from an organizational point of view, since – as we have indicated in the previous section – a joint venture is an alternative to other simpler contractual agreements and, therefore, tends to be used in the case of activities of certain complexity. Among international joint ventures, those devoted to multiple activities carry the most weight, being mainly involved in commercial and productive activities. This tendency is more prominent in less developed countries where governments also force joint ventures to carry out part of their pro-

Table 3. Functional Areas covered in the Joint Ventures Included in DB1 and DB2

Functional area	DB1				DB2
	Domestic	International D. C.	International L.D.C.	Total	
R&D	7.3%	2.9%	0%	4.1%	0%
Production	13.4%	10.9%	9.1%	11.6%	5.6%
Marketing	18.3%	17.4%	0%	16.1%	12.3%
Multiple Activity	61%	68.8%	90.9%	68.2%	82.1%*
Total	82	138	22	242	106

* (Prod./Mark: 67%; R&D/Prod./Mark: 15.1%).

ductive activities in the country; hence the small weight of marketing joint ventures.

Industry

In order to analyze this variable we have used a classification of industrial sectors derived from that of Ghemawat et al. (1986).⁸ From the analysis of Table 4 we conclude that the industry in which the joint venture is integrated does not depend on the nationality of the partners. In DB1 we observe a predominance of the financial services sector, followed by agribusiness, services and energy and water sectors – both in domestic and international joint ventures. However, the predominant industrial sectors in DB2 are different: textile, leather, clothing and shoes, followed by other manufacturing, paper and wood and agribusiness, as shown in Table 4. Summing up, it seems that differences in the industry in which the joint venture is integrated are attributable to the size of the partners rather than to the international character of the joint venture, as joint ventures included in DB2 are mainly small firms, whereas in DB1 large firms carry the most weight.

Table 4. Industry Group of Joint Ventures Included in DB1 and DB2

Sector	DB1 Domestic		DB1 International		DB2	
	Count	%	Count	%	Count	%
Agribusiness	12	14.6%	21	13.1%	13	12.1%
Metals and minerals			2	1.3%	3	2.7%
Energy and water	9	11%	8	5%	2	1.9%
Construction	3	3.7%	5	3.1%	2	1.9%
Textiles, leather, clothing and shoes	4	4.9%	9	5.6%	20	18.7%
Paper and wood	3	3.7%	7	4.4%	14	13.1%
Chemicals	4	4.9%	6	3.8%	2	1.9%
Computers and semiconductors			1	0.6%	1	0.9%
Other electric and electronic products	5	6.1%	12	7.5%	6	5.6%
Automobiles			3	1.9%		
Aerospace	2	2.4%	6	3.8%		
Other machinery	1	1.2%	6	3.8%	5	4.7%
Other manufacturing	1	1.2%	11	6.9%	16	15%
Transportation	2	2.4%	7	4.4%	1	0.9%
Communication and advertising	2	2.4%	5	3.1%	2	1.9%
Distribution	4	4.9%	5	3.1%		
Finance	17	20.7%	23	14.4%	5	4.7%
Services	10	12.2%	15	9.4%	14	13.1%
Computer software	3	3.7%	8	5%	1	0.9%

Number of partners

This variable shows more clearly the differences between domestic and international joint ventures. The number of partners in domestic joint ventures is clearly higher than in international ones. Joint ventures included in DB2 show a very high average number of partners – 14 –, particularly if we consider that IMPI is not included in this variable. Also, as shown in Table 5, in more than 41% of the cases the number of partners exceeds 10. Only 5% of the agreements consist of 2 partners. The analysis of DB1 corroborates the existence of a higher number of partners in domestic joint ventures than in international joint ventures. In Table 6 we observe that, although domestic joint ventures have an average of 5.3 partners, in international joint ventures the number of partners is reduced to 2.4, difference

Table 5. Frequencies in the Number of Partners of Joint Ventures Included in DB1 and DB2

Number of partners	DB1 Domestic		DB1 International		DB2	
	Count	%	Count	%	Count	%
2	51	62.2%	123	76.9%	5	4.7%
3	5	6.1%	19	11.9%	10	9.4%
4	5	6.1%	9	5.6%	8	7.6%
5	4	4.9%	3	1.9%	11	10.4%
6-10	8	9.8%	6	3.7%	28	26.4%
11-20	5	6.1%			24	22.6%
21-40	2	2.4%			12	11.3%
more than 40	2	2.4%			8	7.6%

Table 6. Average Number of Partners of Joint Ventures Included in DB1 and DB2

<i>Average number of partners DB1</i>			
	Number of Cases	Mean	Standard Deviation
Domestic J.V.	82	5.3415	8.156
International J.V.	160	2.4563	1.045
Mean Difference: 2.8852 t-value: 3.19 significance level: 0.002			
	Number of Cases	Mean	Standard Deviation
International J.V. in D.C.	138	2.4203	8.156
International J.V. in L.D.C.	22	2.6818	1.427
Mean Difference: -0.2615 t-value: -0.83 significance level: 0.415			
<i>Average number of partners DB2</i>			
Mean: 14.01			
Mean (excluding public agencies and nonprofit organizations): 13.4			

Table 7. Average Number of Partners by Functional Area of Joint Ventures Included in DB1 and DB2

Functional area	DB1		DB2
	Domestic	International	
R&D	11.33	2.5	
Production	7.9	2.58	8.66
Marketing	6.2	2.45	12.5
Multiple Activity:	3.8	2.43	
Production/Marketing			14.88
R&D/Product/Mark			13.31

which is statistically significant at the level of 0.002. Within international joint ventures there are no significant differences in the average number of partners between joint ventures in developed and less developed countries. All in all, the average number of partners in the joint ventures included in DB1 is still lower than the average 13 partners (excluding public agencies and non-profit organizations) of those included in DB2, particularly if we consider that studies on international cooperation show that more than 70% of the agreements consist of 2 partners (Jacquemin et al. 1986, Morris/Hergert 1987). A complementary hypothesis, which might explain such a high number of partners, would be the fact that public financial aid encourages firms to cooperate and carry out the agreement.⁹

Considering the number of partners by functional area (Table 7), no common trends are observed either among domestic joint ventures or among these and international ones. In domestic joint ventures included in DB1 we observe a higher number of partners in those carrying out activities of R&D, whereas those carrying out multiple activities have a lower number of partners. However, DB2 shows a number of partners appreciably lower for joint ventures formed to carry out production activities, whereas those performing multiple activities have the highest number of partners. Notwithstanding the functional area of the agreement, it is observed that international joint ventures have an average number of partners which remains more stable and is always lower than in domestic ones (is very close to 2). This result is consistent with the role of joint ventures as defined by the Internalization Theory: if the reason to create a joint venture is a lack of knowledge about a certain local environment, one single partner providing this knowledge will be enough to achieve the objective of a new market entry.

Equity distribution

This is another one of the variables where differences between domestic and international joint ventures are observed. Our analysis has revealed that in domestic

Table 8. Ownership patterns in the joint ventures included in DB1 and DB2*

	Unequal equity	Equal equity	Cases**
Domestic	38% (-2.5)	62% (2.5)	50
International J.V. in D.C.	53.2% (0)	46.8% (0)	109
International J.V. in L.D.C.	94.4% (3.7)	5.6% (-3.7)	18
Total	53.1%	46.9%	177
Chi Square: 16.93 (2 d.f.) (p < 0.0003)			
	Dominant partner (> 50%)	No dominant partner	Cases**
DB2	13.3%	86.7%	98

* Adjusted standardized residuals in brackets.

** All agreements not including information relative to this variable have been excluded.

joint ventures there is a much more balanced distribution of equity than in international ones. In Table 8 we observe that only 13% of joint ventures included in DB2 have a dominant partner (having more than 50% of the equity). Similarly most of the domestic joint ventures included in DB1 – 62% – are equal-equity ventures. On the contrary, in international joint ventures we observe a greater weight of unequal-equity ventures, as it is shown in the contingency table included in Table 8. Given that the distribution of equity is usually related to the distribution of the negotiating power, these results show that in international joint ventures it is frequent that one partner have more power than the rest. However, we have to point out that the tendency towards unequal-equity is greater in less developed countries, which is not surprising, since Beamish (1988, p. 16) already compiled several studies with similar results. In this sort of countries there are two factors that, although opposed to each other, make it difficult to achieve a balance of power: on the one hand, the partner expanding internationally to developing countries is usually a multinational, with a greater technological capacity and, therefore, a stronger negotiating position; on the other hand, the fact that lots of Governments require, either through legislation or indirectly, that the shareholding of the local partner has to be higher than the rest of the partners.

Summary of Results and Discussion

The aim of this paper is to verify whether the fact that literature on joint ventures has analyzed international and domestic joint ventures in parallel really obeys to their different characteristics and peculiarities. Taken as a whole, our results confirm the existence of important differences among them, differences that are a normal consequence of the singularities of international joint ventures: they are created mainly to facilitate the penetration of a company in new markets. In fact, while in domestic joint ventures the partners may want to seek collusive practices, access to the technological know how of the others, or penetrate new sectors, international joint ventures are usually motivated by the desire of, at least one of the partners, to use the agreement as a means for international expansion. It is this circumstance which confers international joint ventures their particular characteristics:

- A small number of partners – their average number is close to two. In general, a high number of partners increases the complexity of the agreement because it is more difficult to reach a consensus among them. Thus, the agreement will not have more than two partners unless some advantage is obtained from the addition of new partners. In this sense, the small number of partners in international agreements is due to the fact that a sole partner is usually enough to expand internationally: the selection of the right partner will provide all necessary information about the political, economic, social and cultural conditions of the country, or the access to the local channels of distribution. Furthermore, we must not forget that the existence of policies restricting foreign investment can oblige to have one – single – local partner. On the contrary, when objectives such as collusion, R&D activities or economies of scale – more suitable for domestic agreements – are aimed, the participation of more than two partners make it possible to reach more ambitious goals. Obviously, a higher number of partners increases the complexity of the alliance, and, for this reason, the adoption of the joint venture as contractual form would be more appropriate. Then, the higher number of partners in domestic joint ventures could also be explained by the fact that in domestic strategic alliances with two partners – given its smaller complexity – there is a lower propensity to form joint ventures than in international agreements with two partners, as suggested by García-Canal (1996).
- A less balanced distribution of equity in international joint ventures, particularly in those created in less developed countries. The distribution of equity in a joint venture is usually the result of the distribution of the negotiating power. In this sense, our results show that in domestic joint ventures the negotiating power is usually more balanced given the greater predominance of equal equity in the samples of domestic joint ventures analyzed. This result leads us to think that domestic joint ventures are created with partners of a similar size.

On the contrary, international joint ventures are usually formed by firms considerably different in size, in particular when the partner belongs to a less developed country: a traditional example is a multinational firm with a local partner. There is also another factor contributing to the unequal equity: several host governments – particularly in less developed countries – impose restrictions on the percentage of equity that multinational firms can own, when they invest in their countries. This circumstance explains the predominance of unequal equity ventures in less developed countries.

Some applications for the practice of management stem from these two profiles. Thus, managerial and organizational problems arisen in each case will be different. Because they have a higher number of partners, domestic joint ventures will find it more difficult to establish their goals and strategy, as there is greater number of interests to be harmonized. It seems therefore reasonable the predominance of a balanced distribution of equity: a consensus among partners about the strategy of the venture is desirable, and the existence of a dominant partner does not make it easy. The problems that arise in international joint ventures are those relative to the additional complexity introduced by the different nationalities of partners. On the one hand, different nationalities can cause problems if the different cultures of the partners prove incompatible. On the other hand, it implies the intervention – to a greater or lesser degree – of the local government, restricting the activities of the foreign partner. It is also important, in international joint ventures, to reach a consensus about their objectives and strategy. When there are difficulties in the achievement of this consensus, conflicts can arise. In fact, Stopford and Wells (1972) remarked one factor that can create conflicts of interest in international joint ventures: the desire of multinationals to control. Nevertheless, the greater negotiating power of multinational firms, due to their technical superiority, and the difference in size, greatly mitigate these conflicts and justifies the smaller weight of joint ventures with a balanced distribution of the equity.

Summing up, our results show the existence of a different profile for domestic and international joint ventures, which is a consequence of the different motivation of each type of joint venture. Such different profiles might be useful to orientate future research on this subject. Furthermore, our results provide important implications from the point view of management:

- Organizational problems will be of a different character and, therefore, the management of a domestic joint venture will differ from the management of an international one; so that managers with experience in the creation and management of domestic joint ventures willing to set up an international joint venture will face new problems and challenges, and vice versa.
- Although our analysis has a positive approach, the results possess a certain normative value as far as the profiles found for each type of joint venture has been construed as the most suitable in the pursuance of the goals aimed at in each case.

Notes

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- 2 See also Kogut (1988) and Padmanabhan and Cho (1996). Comparative studies of the performance of joint ventures and wholly-owned subsidiaries has been made in other works (Chowdury 1992, Nitsch/Beamish/Makino 1996).
- 3 The latter have been encouraged by the recent opening-up of the old socialist economies. See, for instance, Child and Markoczy (1993), Lyles and Baird (1994).
- 4 The characteristics of such agreements, as compared with other European or worldwide data bases, are studied in García-Canal (1992).
- 5 In Valdés and García-Canal (1995) the main characteristics of the information collected in the data base are detailed.
- 6 The table shows the result of the chi-square test, as well as Haberman (1978) adjusted standardized residuals. Since one of the variables has more than two categories, the chi-square presents some limitations to summarize all the information included in the contingency tables, in particular if we want to analyze the impact of certain categories of the independent variable on some others of the dependent one. Adjusted standardized residuals, which follows a quasi-normal distribution, allow us to identify those pairs of categories where the differences between observed and expected frequencies are significant.
- 7 The Internalization Theory assumes that a company expanding internationally possesses a series of competitive advantages at an international level, usually of a commercial or technological character (Buckley/Casson 1976, Hennart 1982, Teece 1986).
- 8 We have added two modifications to the sectorial classification of these authors: a) We have merged the categories "other electrical products" and "other electronic products". b) We have added a new category, "computer software", given the importance of the agreements within this sector in the European Union, as shown by Costa and Callejón (1992).
- 9 Certainly, governments can encourage the formation of alliances, as a condition to obtain aids or subsidies. To this respect, Nueno and Oosterveld (1988, p. 12) studied several firms participating in programmes for R&D cooperation support, sponsored by the UE, and found that the access to these aids was one of the main factors which determined the formation of the agreement, and that one third of the firms would not have participated in the agreement had such aid not existed.

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