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Problems encountered within international retail joint ventures: UK retailer case study evidence

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Abstract

Purpose – The paper aims to investigate the problems encountered in retail international joint ventures (IJVs). It synthesizes and applies transaction cost economics and strategic management theories to help explain the dynamics within the international retail joint venture (IRJV) process.

Design/methodology/approach – Applies a multiple case study approach based on a sample of UK-based retailers during the retail internationalisation process.

Findings – Highlights the key problem areas encountered by retailers involved in IJV activity. Concludes that in contrast to production-driven joint venture activity, retailers appear to have a shorter and intensive adjustment period to effectively co-ordinate operational activity and bridge the corporate and behavioural differences between themselves and the partner.

Research limitations/implications – Focuses on a sample of UK retail companies only. Given the intensive instantiation process, a predetermined approach may be more appropriate for retail firms to avoid problematic outcomes in IJV management.

Practical implications – Retail companies may experience post formation risk in joint ventures, arising from partner resource limitations. Differences in management capability between the partners may lead to ineffective collaboration and poor operational performance.

Originality/value – Addresses a previously neglected area of research and provides insights into the management of IRJV. Examines the relevance of key theoretical perspectives in relation to the problems encountered in IRJV activity.

Keywords Joint ventures, Retailing, International business, Transaction costs, Strategic management

Paper type Case study

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Introduction

Over the last four decades, patterns of retail trade in relation to international retail markets have permitted inter-firm collaboration of various permutations to exist (Hollander, 1970; Robinson *et al.*, 1998). Indeed, numerous researchers have established that retail firms operate within a complexity of linkages at both intra- and inter-firm level (Wrigley, 2000a; Davies and Ferguson, 1995; Lindblom and Rimstedt, 2004). International retail firms across the globe have been, and are, engaged in a myriad of bilateral and multilateral co-operative arrangements to facilitate retail internationalisation (Sparks, 1995; Robinson *et al.*, 1998).

International retail joint ventures (IRJVs) have often been associated with various benefits such as access to local knowledge (Robinson *et al.*, 1998), reduction of risk

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(Wrigley, 2000b), increased speed of market entry (Dawson, 1994) and greater ease of government approval (Wang, 2003). Despite these potential benefits, the inter-organisational context presents added problems for retailers in that not only are retailers confronted with complexities of internationalisation but also they are additionally subjected to the trans-boundary complexities of inter-organisational management (Palmer and Owens, 2006).

There is a significant gap in knowledge on the management and operationalisation of joint ventures. While there is a developed literature base on joint ventures, this has focused largely on the activities of manufacturing companies. Valuable insights into IRJV activity have been provided by various authors (Robinson *et al.*, 1998; Wong, 1998) however studies have yet to examine this particular entry mode in any depth (Palmer, 2006). Recently, Palmer and Owens (2006, p. 169) outlined a research agenda for future joint venture research within the context of retail internationalisation. Focusing on the management aspects of joint ventures, they posed the question: "what happens after relationships have been formed?". Palmer's (2006) recent study has sought to address this question, through an examination of the lessons to be learned from the international joint ventures (IJV) process. Palmer's (2006) work identified various "difficulties" arising during the implementation of the joint venture strategy (e.g. a lack of complementarity), as experienced by retail multinationals, namely Wal-Mart, Ahold and Tesco. These often led to failure and termination of the joint venture agreement.

This paper will seek to contribute to existing knowledge on IRJVs by focusing in depth on the problems that retailers experience when adopting the joint venture operating strategy within the international marketplace. The paper will utilise evidence from case studies to, firstly, identify the key problems encountered and, secondly, to examine the nature of these problems. At the outset, it is important to be clear that the focus of this paper will be on the problems encountered within IRJVs rather than on the barriers that prevent joint venture formation. Furthermore, the paper shall not seek to examine the termination or exit processes of IRJVs.

The paper is now organised as follows: first, the following sections will provide an overview of some of the key themes from the retail internationalisation and joint venture literatures. Pertinent theoretical perspectives developed from previous joint venture research studies will then be discussed. The key tenets of the transaction costs and strategic management theories are well documented in relation to entry mode choice, however this paper will examine their applicability to the study of the operationalisation and management of IRJVs. Following this, the case study methodology employed in the present study will be discussed. The paper will then present the main findings from the case studies. Finally, the conclusions, limitations and managerial implications are presented.

Retail internationalisation

Reflecting the increasing incidence and importance of internationalisation for retail firms, research on retail internationalisation has increased significantly over the last decade (Rugman and Girod, 2003; Coe, 2004). Key themes in research have included the motives for internationalisation (Williams, 1992; Alexander, 1995); the geographical spread of expansion (Treadgold and Davies, 1988); international retail decision-making processes and performance (Clarke and Rimmer, 1997; Evans *et al.*, 2000); and retail

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entry strategy and entry modes (Doherty, 1999; Quinn and Doherty, 2000; Gielens and Dekimpe, 2001; Picot-Coupey, 2006). More recently, several authors have focused on divestment and corporate restructuring issues within the context of retailer internationalisation (Palmer, 2004; Alexander *et al.*, 2005).

Although offering significant value-creating potential, IRJVs often end in failure (Burt *et al.*, 2003). Indeed, several studies examining internationalisation in general, or specific aspects of the process, have identified several factors contributing to their dissatisfaction. These include: disagreement over strategy; management conflict over control; resource constraints; inability to adapt to local market conditions and under-performance (Hollander, 1970; Larke, 2003; Bianchi and Arnold, 2004; Burt *et al.*, 2005; Palmer, 2006). Although the complexity and difficulty of managing and operating retail joint ventures has been recognised within the retail internationalisation literature, little attempt has been made to examine any aspect of retail joint venture operational activity through either static or dynamic analysis (Burt *et al.*, 2003). Recognising that IRJVs are undoubtedly challenging, this paper aims to explore the complexity of IRJV operations through a more in-depth examination of the problems and difficulties international retailers experience throughout IRJV management operations.

International joint venture research

The literature on IJVs has consistently grown over the last few decades (Reus and Ritchie, 2004). The vast majority of attention has been given to motives and the contextual conditions predisposing their formation (Kogut, 1988; Glaister and Buckley, 1996; Glaister, 2004); partner identification and selection (Geringer, 1991; Nielsen, 2003); governance and performance (Choi and Beamish, 2004); knowledge acquisition (Lyles and Salk, 1996; Inkpen, 2000) and instability and restructuring (Hennart *et al.*, 1998; Gill and Butler, 2003). However, in recent times, research has considered the management challenges and dynamics of IJVs (Buchel, 2000). Previous research has shown that management of IJVs is extremely difficult, resulting in high levels of instability (Demirbag and Mirza, 2000; Nakamura, 2005). Indeed, although there is a plethora of studies that attempt to explain the determinants of IJV success and failure (Demirbag and Mirza, 2000; Kale *et al.*, 2001; Mohr and Puck, 2005), little research exists on IJV management issues in the service sector (Chadee, 2002).

Theoretical perspectives

Studies on IJV behaviour can be categorised by a number of theoretical perspectives that include, albeit not exclusively: transaction cost theory; resource dependency theory; organisational learning; strategic management theory and game theory. Each of these perspectives offers possible explanations for IJV management. Although the IJV literature has been criticised for theoretical pluralism (Parkhe, 1993a, b; Robson *et al.*, 2002), the majority of studies may be linked to the transaction cost economic and organisational learning perspectives. However, the transaction cost economics (TCE) perspective holds little regard for the argument that IJVs are intrinsically strategic and involve many different parental motives. International retailers who engage in IJVs have at their nucleus the core issues of inter-partner relatedness, interdependence and vulnerability. Therefore, the quality of interaction between retailers and partners and the overall interactive environment within the IJV is likely to be influenced by not only economic considerations but also by strategic and organisational issues.

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Hence, in answering the recent call by Reus and Ritchie (2004) for consideration of other theories in IJV research, this study aims to combine insights from the rich explanations of the TCE perspective with the strategic management theoretical perspective to examine IRJV management problems. Thus, such combinations of theories, it may be argued, should provide a balanced view of the research question.

Transaction cost economics

IJVs entail problems of co-ordination and mutual dependence (Nooteboom, 1999). These have been largely the focus of TCE. Doherty (1999) deployed internalisation/ transaction costs perspectives to illustrate how protecting strong intangible asset bases of international retailers against potential acts of moral hazard and opportunism constituted a key determinant in retail entry mode choice. Retailers that employ joint ventures are always likely to be susceptible to some degree of partner opportunism irrespective of the level of completeness in the contract (Luo, 2004). Thus, in addition to the appropriation of knowledge, episodes of opportunistic behaviour can involve harbouring hidden agendas, withholding or distorting information, shirking or failing to fulfil promises or obligations and irregular accounting procedures (Parkhe, 1993a). Exactly what influences joint venture partners to violate agreements this way has commanded less attention. However, conflict over strategy is recognised as prompting parents to behave opportunistically. Indeed, partners may behave opportunistically to subvert the venture's goals, if necessary, to achieve their own goals (Das, 2006). Additionally, Johnson *et al.* (1996) explored how cultural backgrounds influence management's propensity to act opportunistically.

Opportunistic behaviour is largely considered detrimental to joint venture performance (Parkhe, 1993a, b). Therefore, TCE theory suggests that firms perceiving greater potential for opportunism are likely to incur more transactions in governance and management (Williamson, 1985). Moreover, failure to move beyond short-term optimisation of self-interest behaviour can impede co-operative effort essential for alliance success (Das, 2006, p. 747). Nevertheless, as international retailers face a multitude of unanticipated and unpredictable contingencies in internationalisation, along with the need to preserve flexibility in retail operations, total mitigation against partner opportunism is highly unlikely. It cannot be assumed, however, that partners will always behave opportunistically. Thus, this perspective neglects the softer aspects of IJV partnerships, largely ignoring the relational dynamic of IJV management (Nooteboom, 1999).

Strategic management theory

While TCE emphasises partner opportunism in contributing towards co-operative failure and hence management problems, strategic management theory draws attention to the need to achieve "inter-partner fit" between joint venture partners. This then allows integration between both partner's cultures and systems (Faulkner and de Rond, 2000). Harrigan (1988a, b) argues that a range of problems in joint venture management result from the absence of inter-partner "strategic symmetry". That is, asymmetry in strategic missions, resource/managerial capabilities and bargaining power stimulate inter-partner conflict. Adopting variables of inter-partner relatedness, parent-venture relatedness, size, nationality and joint venture experience, she reported significant relationships between strategic symmetry and performance.

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However, Hill and Hellriegel's (1994) study discovered that dissimilarities in partner resources did not exert a negative effect on venture performance. More recently, Yan and Lou's (2001) empirical study found that inter-partner fit consists of four fundamental dimensions:

(1) compatibility of strategic objectives;
(2) complementarities and joint management of critical resources;
(3) consensus on the venture's operating culture and strategy; and
(4) consistency between the partners' perceptions of inter-partner relative bargaining power and control.

Therefore, the issue of fit in IJVs is not necessarily driven by specific symmetries among partners, rather sometimes the existence of complementary capabilities and systems between partners. Nevertheless, inter-partner fit in IJVs is commonly determined by common factors such as shared strategic intent and vision, mutual dependency and common internal operating philosophies (Douma *et al.*, 2000). Moreover, these researchers believe that managing the dynamics of inter-partner fit determines success or failure in alliance activity.

Having discussed the theoretical framework for this study, the paper will now move on to examine the operationalisation and management of IRJVs in practice. The case study methodology employed in the present study will firstly be discussed, followed then by the main findings from the study. The case methodology was employed in this study in order to provide insights into the management process of IRJVs by focusing in particular on the problems that retailers experience when adopting the joint venture operating strategy within the international marketplace.

Methodology

This empirical study applied the multiple case study method, which is usually used to study complex phenomena in a real life context (Yin, 1994). The case study method is useful because it allows an investigation to retain the holistic and meaningful characteristics of real life events (Yin, 1994), such as the processes of IJV management and development. The main form of data collection in this study was through semi-structured interviews with senior retail management, directly involved in the establishment and operation of the IJV. To corroborate the data and develop convergent lines of inquiry (Yin, 1994), the interview data were supplemented with multiple sources of evidence, including corporate documentation and archival press material.

Case selection

Purposeful sampling was used to assist the selection of the cases underpinned by the selection of "information rich cases" worthy of in-depth study (Patton, 1990). Criterion sampling was also used to select information rich cases. The key criterion was that the retailer must have formed an equity IJV in internationalisation. A joint venture is considered international when it is formed by parent partners originating from different countries or when a joint venture has significant levels of operations in more than one country (Geringer and Herbet, 1989). The retailers studied were drawn from a population of retail companies in the UK operating in international markets.

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The key source in identifying UK International retail activity in retailing was the UK Cross Border Activities report (Corporate Intelligence Group, 1996) and the Retail Intelligence (2001) report. As there are no publicly available databases of JV or IJV activity in retailing, the traditional source of IJV data from press announcements was utilised. A total of 20 companies were contacted to participate in this study. Of these, seven companies agreed to participate. A confidentiality agreement was signed with the companies before the interviewing, which eased the interviewees' concerns over disclosure. For these reasons of confidentiality none of the participating companies will be identified by name during the course of the paper. Table I provides further details of the companies participating in this study.

Data collection and analysis

During the period of May 2003-June 2004, 40 interviews with directors and managers (Table II) were undertaken across seven companies involved in the establishment and implementation of the IJV. The interviews averaged the duration of around one hour and ten minutes. All the informants were comfortable with being taped and interviews were transcribed within five days of each visit. A detailed case protocol as suggested by Yin (1994) was developed. Parkhe (1993b, p. 234) states "IJV research is a 'messy field' in which factors may impact upon one another in a complex manner". While a set of questions were used to serve as a guide for the interviews, the interviews themselves were not driven by any a priori conceptualisations or theoretical underpinnings. Rather, the interviews were wide-ranging and allowed the retail executives substantial freedom to express their views and opinions on the joint venture activity and the problems encountered. Each case was studied thoroughly in the spirit of a series of individual experiments (Yin, 1994). Cross case analysis was conducted by displaying cases with the aim of identifying common explanations and patterns of the studied cases, with similarities and differences noted.

The following section of the paper will utilise evidence from case studies to, firstly, identify the key problems encountered and, secondly, to examine the nature of these problems. The main themes arising from the interviews will now be discussed.

Findings

The empirical analysis identified several major problem areas encountered in the management of IRJVs. These include: poor performance; disagreement over strategy; disagreement over the operating process; poor senior management relationships; partner and/or company resource weakness; partner inefficiency. Table III summarises the problems, and their underlying causes, by case company.

Poor performance

From Cases 1, 2, 4, 5 and 6 it could be observed that poor performance in joint venture development occurred due to the occurrence of environmental shocks. Cases 3 and 7 evaded this kind of disruption to joint venture operations. Both Cases 1 and 2, in their Turkish joint ventures, experienced the effects of devaluation of the Turkish Lira, as illustrated by the following quote relating to Case 1:

> The major devaluation of the lira didn't help things and so the business was not performing to its business plan and it got to the stage that more money needed to be put into the business and at this point we kind of thought do we really want to put more money in? (Director/Case 1).

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Table I.
Overview of case companies

Case	Sector	Market (s)	Nationality of partner	Partner type	Ownership (at formation)	Date established
1	Clothing	Turkey	Turkish	Retailer (nc)	25:75	1999
2	Home improvement	Taiwan	Taiwanese	Exporter/importer	50:50	1995
		Turkey	Turkish	Retailer (nc)	50:50	1999
3	Mixed retail	Europe	British		50:50	
		Italy	Italian	Retailer (nc)		
4	Home furniture	Guyana/Trinidad	Caribbean	Retailer	50:50	1993
		Indonesia	Indonesian	Retailer	50:50	1994
		Madagascar and South Africa	South African	Retailer	33.3:66.3	1999
5	Home furniture	Taiwan	Taiwanese	Retailer	50:50	2000
6	Food	South Korea	Korean	Retailer (nc)	51:49	1999
		Malaysia	Malaysian	Diversified manufacturing and service company	70:30	2001
7	Music	Japan	Japanese	Retailer	50:50	1991

Note: NC: Non-core retailer

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Economic instability was a significant burden for Cases 1 and 2 as the environmental bolt appeared shortly after market entry, affecting retail sales, dramatically placing investment plans on hold, and dissipating joint venture momentum. With Case 2, these economic conditions, along with poor choice of the first store's location and management difficulties, resulted in poor retail sales in the first "new store" and the existing four stores. More significantly, there emerged inter-partner disagreement over future expansion and partner inefficiency in upstream contributions. In the latter, the partner deliberately shirked on its responsibility in finding sites for further expansion, whilst aggressively directing this activity to other business units in its portfolio. The company believed this behaviour was reflective of the partner beginning to assign less importance to the venture. Nevertheless, the presence of strong social bonds between partners and the perception of significant market opportunity provided robust co-operation within the joint venture. Also dramatically, Case 4's joint venture with its finance partner in Indonesia experienced significant difficulties arising from political and economic instability. As opposed to the economic shocks experienced by Case 5, Cases 1, 2 and 6 encountered a regulatory shock. Case 6's latitude for development in Malaysia was severely curtailed by the Malaysian Government's decision to temporarily freeze new applications for foreign retail chain stores; thereby halting the company's expansion programme of 15/16 stores by 2008. This imposed substantial restrictions on expansion with evidence to suggest that this was the stimuli for inter-partner tension within the inter-partner relationship:

> The partner did try and influence things there but because the government still blocked hypermarket development it just didn't make any difference. But we did have a number of stores. But I do know in Malaysia there is a degree of tension with the partner, the business is progressing slowly, there is a lot of capital needed and Malaysian legislation is difficult and does not make it easy for foreign companies to take significant majority shareholding in retail enterprises and there is a lot of tension between Case 6 and the partner and I don't think that one is working as well as the others (Director/Case 6).

Disagreement over strategy

Cases 2, 3 and 7 cited a lack of convergence over strategy. This problem was absent in Cases 1, 4, 5 and 6. With Cases 2 and 3, disagreement over strategy emerged post-formation while with Case 7 the divergence remained between the partners since formation. The disagreement for Cases 2 and 3 pertained to rate of expansion, while for Case 7 it pertained to how the venture would expand. For Case 2, inter-partner disagreement over strategy was stimulated by market economic volatility, shortly after signing the agreement. The partner, a diversified conglomerate in Turkey with

Case	Date of interviews	Personnel involved	Location of interviews
1	August 2004	Directors	UK Head Office
2	May and November 2003	Directors and senior managers	UK Head Office
3	August 2004	Directors	UK Head Office
4	August 2003	Directors	UK Head Office
5	May and July 2003	Directors and senior managers	UK Head Office
6	August 2004	Directors	UK Head Office
7	August 2003 May 2004	Directors and senior managers	UK Head Office

Table II. Details of data collection

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Problems	Broad causes	Specific causes	Cases
Poor performance	Environmental shocks	Regulatory change restricting store expansion, leading to reduced sales and causing relationship tension at senior level	1, 2, 4, 5 and 6
		Economic volatility causing poor store performance	
Disagreement over strategy	Environmental shocks	Inter-partner conflict over future expansion	2, 3 and 7
	Incompatible motives	Retailer large store strategy versus partner small store/in-store strategy	
	Emerging divergence in strategic orientation	Retailer aggressive expansion versus partner cautious expansion	
Disagreement over operating process	Cultural differences	National differences in sales/consumption process leading to contrasting inter-partner interpretations over marketing approach	2, 4, 5 and 6
	Contrasting business philosophies	Partner preference for operational funding through cash-flow as opposed to retailer preference for funding through retail profit	
	Lack of planning	Failure to contract operating methods leading to disagreement	
Poor senior management relationships	Competition for control	Inter-partner conflict arising from the need to control joint venture strategy	1, 2 and 3
	Immediate implementation	Intensive instantiation of the initial retailer/partner relationship stage	
Partner and/or company resource weakness	Planning	Failure to provide adequate partner training	2, 3, 5 and 7
	Cultural differences	Asymmetrical levels of management capability between partners	
Partner inefficiency	Lack of commitment	Partner shirking on critical functional areas of responsibility.	1, 2, 3

Table III.
International retail joint ventures: problems and their causes

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considerable interests in banking, experienced increased risk exposure from devaluation of the Turkish Lira. Thus, while the partner preferred to constrain expansion on non-core business areas such as its retail joint venture and concentrate the IRJV's activity within the existing four stores, Case 2 was keen to proceed with the business plan of store network expansion. Case 3's joint venture was moderately constrained by the emergence of a divergence in strategy generating tensions at board level with the partner perceiving higher risk to the venture, as expansion progressed. Divergence in strategy also emerged in the case of Case 7's US joint venture with the partner aggressively expanding its own music stores; converting all the stores from the acquisitions of several music chain stores to its own facia. That is, partner building competitive capability created some tension, particularly over location decisions. Case 7 in Japan experienced the partner preferring to pursue small format stores either on their own or within their own department store portfolio, as opposed to the preferred Case 7 strategy of large satellite stores. An explanation for this disagreement stems from the mismatch in the strategic intents at the outset between both parties, as illustrated by the following quote:

> Japan's retail landscape is different from ours. Specifically, department stores occupy a much more important place in the general retailing sector. Here, there are only a couple of successful department stores, most of them did well to survive and a lot didn't survive and there is a perception that they are yesterday's format. In the case of Japan, they are very much in the forefront and they are typically very large spaces and the best pitches, some of them they sublet to other retailers and you will find a lot of concessions operating in those buildings and the partner was one of the successful retailers in Japan and they saw the appeal of the brand like Case 7. I think the primary motivation in entering into a joint venture was to get that sexy brand into their shops. Case 7 on the other hand always wanted to open the large satellite stores and that was always a thorn in the relationship (EX CEO/Case 7).

Moreover, as illustrated above, an additional cause for the divergence in strategy arises from corporate culture differences. The company found the partner's corporate culture risk-averse, conservative and pedestrian.

Disagreement over the operating process

Cases 2, 4, 5 and 6 recognised that a key problem in joint venture operations involved disagreement with the partner over aspects of the transferred operating process. This problem for these companies is closely related to cultural differences negatively impacting inter-partner interaction at operations. Case 5's major problem in the Taiwan joint venture was disagreement with the partner over aspects of the operating model. The retailer experienced a considerable culture disparity in the buying processes of the UK and Taiwanese consumer in this sector. Owing to a language barrier, management were dependent on the partner to communicate to sales staff the need for change from the old way and to adopt Case 5's operating process. However, this knowledge diffusion was impeded by the partner's lack of complete acceptance of the operating model. Furthermore, Chinese mentality encouraged submissive and passive behaviour towards venture management that resulted in elementary mistakes being made unnoticed. Thus, there has been some tension and annoyance resulting from perceived discrepancies and incompatible wishes from both partners on proposition delivery. Indeed, this cognitive conflict has impeded operational effectiveness.

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Case 4's joint venture with its partner in Indonesia language was a major obstruction to joint venture operations, constituting an impediment in communication between the company and the Indonesian management and staff. This cultural issue contributed to the difficulty of the partner accepting the operating model. Case 6's joint venture in South Korea faced operating difficulties arising from low staff morale. Following formation, the morale of the employees was quite low due to the immediate transition in ownership and management causing language barriers and other communication difficulties. Although Case 6 took over partner employees and continued to hire locally, including workers and managers, there was no concerted strategy to assist integration. Hence, local employees perceived the new management process of the venture to be too rational and lacking humanity. Underlying this problem was a lack of planning towards integration and adaptation that could manage cultural disparity and hence, the inter-partner fit between partners.

Unlike Cases 5, 6 and 4, Case 2's operating model problem in Turkey revolved around a specific aspect of the operating model; that is, funding. Case 2 and its joint venture partner held fundamentally differing corporate philosophies on how the business should be funded. The Turkish partner's corporate philosophy of retailing asserted that the business be funded by cash-flow, not by retail profit. Details of funding lacked clarity in the contract, compounding the disagreement:

> The main reason why this joint venture has been difficult is that because the partners can't agree on funding. Thus, in the Turkish model, if the two shareholders can agree then it will be fine. The issue was that the partner prefers finance, Case 2 prefers equity. Until you can reach agreement on the financing of the business, it will be very difficult to move anywhere. So for two years during the crisis they have stood still, we haven't opened stores (Director/Case 2).

Case 2's management recognised two reasons for this incompleteness in the contract: First, they argued that the company was still learning the nuances of internationalisation, and secondly, the tide of goodwill was so strong that funding details failed to be fully contracted.

Poor senior management relationships

Cases 1, 2 and 3 reported the poor inter-partner senior management relationships as a problematic issue within joint venture management. Cases 4, 5, 6 and 7 experienced relatively stable and cordial individual inter-partner management relationships. Case 2, in Taiwan, and Case 3 encountered cross-partner management tensions in the early period. In Case 3 there emerged tensions between middle-management in the early period of the joint venture. In other words, intensive instantiation of the joint venture process detracted from management's ability to harmoniously integrate beliefs and values, establish clear modes of communication and reporting procedures, and adjust decision-making styles:

> In fact during the early days of the joint venture, some of the individuals in the partnership just didn't get on and it was agreed before my time actually that some senior people in some senior positions from the partner would stop working because they were not just working well so it took a while to gel and there is a bit of nervousness in the beginning but once the first scheme was up and running and became profitable, everybody started to relax, so once people saw that things could work, they started to relax. What you have got to remember is that we work very fast, we are very entrepreneurial and thus we were keen to get on with the developments and maybe in hindsight those involved from both sides didn't get a chance to

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really to bed down but at the same time we still got things moving and it was through that exchange of information and working together that we could get things done (Director/Case 3).

These initial individual management tensions were partly indicative of the corporate culture differences in addition to, uncertainty surrounding the performance viability of the developments. However, with Case 1 individual inter-partner relationships deteriorated preceding the partner's failure to comply with nominal debt provision and company perceptions of under-support and commitments. This partner self-interest and opportunistic behaviour exacerbated tensions that emerged post the economic shock. With Case 2 in Taiwan, management found difficulty in reconciling the partner's desire to engage day-to-day operations. Unlike Cases 1 and 3, despite the upward trajectory in store performance, joint decision-making and the inter-partner relationship was problematic. Indeed, management admitted to "open warfare" culminating in the partner taking away Case 2 staff work permits as punitive action in response to certain expatriates ignoring communication channels. Thus, while personality issues were important in this case, the underlying root of the problem pertained to competition over control:

We had a lack of understanding and communication with the Chairman of the partner as to his need for involvement in the business, that is, we were ignoring him. So it did have a particularly bad period which was personality driven. So when you got a 50:50, where you have a corporate entity, like Case 2, although the partner is a publicly quoted company, it is basically run in the family way. So husband and wife run it, they see it as their business, put it to market and they are still the major shareholders. So you have corporate meets family in a different country and it is very much personality driven. Some of the personalities in the early days of running the business were not the right personalities from our side. We didn't look at personality, attitude and the good facility to work in an Asian context that we have today. So most of my time I spent managing the relationship with the Chairman of the partner, not managing the business (Director/Case 2).

Partner and/or company resource weakness

Four cases, Case 2/Turkey, Case 3/Italy, Cases 5 and 7, reported some dimension of either company or partner resource weakness as a problematic factor. Within Case 3 the resource weakness emerged from the partner's lack of adequate resources; as opposed to the Cases 2 and 7 where the resource problem was derived from the company itself. Within Case 5, resource weakness stemmed from both the company and the partner. Cases 1, 4 and 6 reported no resource weakness in their joint ventures.

Case 3, in its Italian joint venture, reported a weakness in the partner's development skills. Case 5 reported that operational efficiency was impeded by Taiwanese partner resource deficiency that related both to the partner and to the company. In particular, management believed that the partner lacked strong market orientation, directly contrasting with Case 5's strong marketing orientation cultivated in a competitive UK marketplace. This problem is again closely related to culture differences; decision making in Chinese commercial activity is not strictly based on performance-based values and systems as found in Western management:

The joint venture partner is particularly bad at P & L management, because their own business has not really focused on it. There is no such thing as the manager getting an incentive for profit. So I'll give you an example, their beef noodles chain is open for 10 years and it hasn't made any money. To them that seems perfectly normal. Cash flow, cost control

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> and P &L management has been a huge learning curve for these guys. I think in the initial stages when we were setting up the business up or even prior to setting it up when this particular partner came to the UK, they only came to the UK for a week. To try and get a grasp of Case 5 in five days coming from Taiwan to the UK is impossible. It takes you to two days to try and get over the jet lag. Maybe I would have more people in hindsight working in the UK for longer period (Director/Case 5).

Additionally, management believed the experience levels of the company's expatriates was not sufficient. This is similar to Case 2 who asserted that unsuitable expatriates contributed to initial management difficulties. Moreover, it appears that Case 5 did not envisage the magnitude of, nor plan for, the difficulties and challenges of educating the partner in its mode of operandi in a considerably different cultural and institutional environment. Furthermore, management believed that UK training capacity needed to be enhanced and adapted first before adequate training could be transferred to foreign subsidiaries. Similar to Cases 5 and 7, this problem can be traced in Case 2 and its Turkish operations. In terms of this joint venture, Case 2 experienced a "lack of fit" between the management capability implanted and the retail proposition of the joint venture which was a partner retail proposition. The following quote by a director of the company captures this issue:

> The guy who was running it was not the right person for a small home improvement business. He was used to Big Box in the UK. So essentially we cleared a whole management structure in the venture and brought in people who were longer term in the project but essentially we took out some people. But sometimes the organisation DNA needs splicing but we took out all the general management (Director/Case 2).

Therefore, in contrast to Case 5, the company failed to fully appreciate their "acquired proposition". In contrast to Case 2, Case 7 reported that due to asymmetrical resource positions they lacked influence in the Japanese venture. Despite joint decision making, the partner's control would increase over the years through a greater proportion of the partner's people and more importantly the control of critical resources. Hence, the partner gained greater bargaining power because the resources it contributed were costly (debt capital and human resources) and were critical to joint venture success.

Partner inefficiency

Cases 1, 2, 3 and 4 experienced levels of partner inefficiency. Cases 3, 5 and 6 observed no signs of partner inefficiency. Case 2 noticed partner inefficiency in the search of property and sites in both the Turkish and Taiwanese joint ventures. With Case 2, and Taiwan, ambiguity caused by lack of planning, co-ordination over roles and responsibilities and uncertainty over performance in the early days generated perceptions of partner inefficiency. Cases 1 and 4 emphasised specific areas of partner incompetence while Case 3 reported partner inefficiency generally in terms of overall task completion and development speed. The Italian partner's slow attitude towards development was explained by a cultural propensity towards non-aggressive development. In the Indonesian joint venture, Case 4 reported partner inefficiency in terms of legalising the operations of stores at market entry. As with Case 1, management contend this was closely related to a lack of commitment to the venture. Case 1 found shifting stock through customs difficult due to legal barriers to which they relied on their partner for assistance and knowledge. However, the company believed the partner shirked on this responsibility. The company believed that

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underlying this partner shirking behaviour was a lack of commitment to the venture and asymmetry in terms of sector expertise:

> We had a major learning curve of going into Turkey in terms of exporting goods. There is incredibly strict customs requirements which meant that we were forever getting stock held in customs and so between the very sort of initial start of getting stock stuck in customs because no one knew what the rules were 100%. Even our Turkish experts (Director/Case 1).

Discussion

The findings have shown that in the pursuit of viable retail joint venture operations, international retailers experience many managerial and operating problems. IRJV management problems are largely explained by the immediate implementation of the IRJV process, strategic asymmetry, national and corporate culture divergence, and environmental turbulence in the foreign retail market. Each of these factors will now be discussed in more detail.

During the early period of the partnership, and in an effort to achieve operational status of the first stores, levels of interactions and communication between retailers and partners are highly intensive. These time pressures offer retailers limited time and recourse to effectively clarify roles and responsibilities, to establish modes and patterns of partner interaction and to explore how their management assumptions diverge from the partner. Moreover, within this immediate implementation process, the retailer's effort to develop the inter-partner relationship and transfer the retail proposition is challenged further by the partner's lack of knowledge and understanding of the retail operating model. Retailers in this study who partnered with non-retailers or non-sector retailers, either out of necessity or preference, found themselves experiencing a lack of common understanding with the partner. Thus, in some instances, procedural and cognitive conflict quickly emerged over specific aspects of the retail proposition. Therefore, despite under-developed relationships, retailers are immediately engaged in an intensive market and partner learning environment, whilst simultaneously co-ordinating IRJV operational activity and refining the retail proposition to suit local conditions.

The evidence points out that relational difficulties in shared management control structures are often situated at a retail operational decision-making level where retail managers and expatriates have been used to taking decisions with control as opposed to day-to-day engagement with the partner. Expatriate management in IRJVs attempt to mould the operational characteristics of the joint venture by enacting management practices commonly used in the non-joint venture domestic retail environment. In fact, failing to fully engage the partner in operational decision making leads to conflict, slows down operations and curtails the flow of partner resources towards retail operational activity. Therefore, expatriate management may be partly responsible and/or compound the incompatibles with partners in terms of structure, culture and planning. Indeed, in contrast to Gamble (2003), this study shows that cultural insensitivity by retail expatriate management can severely jeopardise the integration process with partners to the point where adaptation is necessitated through management restructuring. This suggests that the issue of human agency in IRJVs must be fully considered within the context of the IRJV's governance structure.

Supporting Palmer (2006), the case evidence identified how asymmetry over strategy can present problems in IRJVs. In extending this work, the findings revealed

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that strategic asymmetry can be determined *ex ante* by incompatible joint venture motives or *ex post* by changing dynamics of the partner. *Ex ante*, the existence of motive heterogeneity between retailer and partner during joint venture design can often be the stimuli for an immediate lack of congruency between retailer and partner over strategic objectives, and hence IRJV management team conflict. However, despite motives diverging from one another, they may still be complementary, and hence conducive to the strategic plan of the joint venture. Indeed, this allows both management teams to progress retail operations within a common strategic framework of understanding and direction. Nevertheless, while joint venture motives can either converge or diverge, the diverging motives constitute a destabilising condition. *Ex post*, strategic asymmetry can emerge during the development of the venture as corporate intentions of either partner change. Therefore, the "fit" that has been established since partner selection will be challenged by strategic and organisational changes within either partner. This strategic asymmetry in IRJVs may relate to the form, location and rate of expansion. From these findings, empirical work positioned with strategic management theory appears highly relevant in explaining IRJV management problems (Harrigan, 1988a).

The case evidence reveals the influence of cultural issues on IRJV management problems. National cultural diversity within the sales and consumption process can create misunderstandings and hence conflict within inter-partner multi-national team situations. Indeed, this diversity can produce difficulty in knowledge exchange, coordination and decision making when transferring the retail proposition. In addition to national cultural diversity, contrasting corporate cultures between retailer and partner often lies behind inter-partner conflict. These differences in corporate assumptions and values can lead to differing inter-partner opinions over specific components of the operating model and/or cause diverging perceptions over business performance. Moreover, within shared decision-making structures, close contact and co-ordination can compound these management sensitivities to operational differences. Although Shackleton (1996, 1998) demonstrated how corporate culture influences strategic decision making within retail diversification, this study offers initial insights into how corporate culture can shape the level of autonomy managers can exercise with respect to strategic planning and operating practices in an IRJV context.

The findings further indicate that IRJVs encounter environmental shocks leading to periods of instability. This study has found that economic turbulence can invite dysfunctional partner behaviour, notably partner shirking behaviour. This was considered detrimental to joint venture progression especially in the early period of the venture where international retailers placed a high premium on local partner capabilities. Moreover, an acute sense of this self-interest behaviour is exacerbated when retailers observe partner capabilities being channelled to other partner business units outside of the joint venture. In this, joint venture partners by default signal a negative change in their commitment to the IRJV and compromise the spirit of the partnership.

This study found that environmental shocks impact IRJVs in several fundamental ways. Firstly, the venture's business plan can be postponed. Secondly, the continuous flow of partner resources from the parent to the venture subsystems (property and human resources) is curtailed due to partner shirking behaviour. Thirdly, management enter into time-consuming, and sometimes confrontational, dialogue to debate future

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expansion and restore partner contribution inertia within these sub-systems. Nevertheless, strong social bonds, the presence of significant market opportunity and other positive partner contributions help moderate perceived dissatisfaction from partner shirking behaviour. Doherty (1999) discusses opportunistic concerns as an antecedent in retail entry mode choice. The present study extends this work by providing some initial insights into how partner opportunism actually occurs within IRJVs. Indeed, although partner opportunism is problematic to co-operative behaviour in IRJVs, the impact of violating an agreement appears to be determined by the socio-economic context of the IRJV. Moreover, this preliminary evidence suggests that partner opportunistic and self-interest behaviour in IRJVs are more related to the actual access to partner embedded resources and capabilities, than the risk of retail know-how appropriation.

From these findings, concepts of TCE appear relevant to the examination of IJV management problems in retailing. The study primarily contributes to knowledge by providing insights into the circumstances surrounding the occurrence of partner opportunism. That is, the findings have established a relationship between partner opportunistic action and asymmetry in strategic importance between partners. In IRJVs involving diversified conglomerates as partners, asymmetrical levels of interdependence and commitment may evolve over time. Thus, partner opportunistic action can ensue when macro turbulence shocks affect joint venture strategy and partners prioritise other business units over the venture. Although partnering with non-sector companies or non-retailers can be perceived by management as a way to ensure control and protect retail advantages, it may also weaken levels of interdependency, detracting potential synergy otherwise feasible between retailer and partner. Thus, retailer-partner interdependency levels have a strong bearing on continuing resource flows towards IRJV operations and hence subsequent management problems. However, tensions arising from resource under-utilisation and asymmetrical interdependency levels do not always correlate to complete dissatisfaction within inter-partner relations. The study supports the work of many researchers who argue that TCE largely ignores the influence of trust and bonding between partners in reducing the effects of opportunism (Nooteboom, 1999). However, although opportunism was prevalent, the management problems identified in IRJVs within the present study may be more closely aligned with the concepts positioned in strategic management theory.

The study has identified that many management problems in IRJV operations are derived from dissimilarities in resources, operating methods and strategy. Retailers partnering with companies outside of their retail sector, particularly in emerging markets, have discovered that operational problems arose due to asymmetry in retail skill and knowledge sets between partners. Despite the obvious fit in many of these joint ventures, where each party contributes distinctive resources, insufficient mutual understanding of the operating model causes immediate problems, especially under shared governance. This is in direct contrast to the findings of Hill and Hellriegel (1994) that dissimilarities in partner resources do not exert a negative effect on venture performance. Furthermore, extending the works of Harrigan (1988a) and Yan and Luo (2001), the underlying problem may not be inter-partner fit *per se*, but rather the inability or reluctance to effectively manage inter-partner fit. This raises two issues. Firstly, in IRJVs where an asymmetrical retail skills and knowledge position exists, manageability of the inter-partner fit can be impeded by a lack of planning, training,

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organisational commitment and financial resources. Secondly, retailers' ability to manage strategic conflicts can be inhibited by changing strategic priorities and loss of control through shifts in bargaining power to the partner. This finding therefore lends supports to Douma *et al.*'s (2000) conceptualisation which suggests that the capacity to manage the dynamics of inter-partner fit is what remains critical to successful alliance development.

Conclusions

The management context of IRJVs constitutes an important and neglected area of research on retail internationalisation. In light of this research lacuna, Palmer and Owens (2006, p. 169) posed the question "What happens after these relationships are formed?". In order to move some way towards answering this question and addressing the gap in the literature, the current paper identified and discussed the problems retailers experience when adopting the joint venture operating strategy within the international marketplace. The findings from this study indicate that retail companies encounter a range of problematic issues in the management of joint ventures with international partners. The key problem areas related to strategic and operational issues, management relationships, resource capabilities and partner inefficiency. There would appear to be several explanatory factors underpinning problem areas, namely: the immediate implementation of the IRJV process; strategic asymmetry; national and corporate culture differences; and environmental turbulence. Environmental shocks, while directly affecting operating performance, also served to highlight problems in the joint venture relationship. Perhaps, not surprisingly, cultural differences (both at market and corporate levels) had a major role to play in contributing to both operating conflict and incompatible differences over strategic direction of the joint venture. Beyond this, a pervading explanation for many of the management problems encountered in IRJVs may be the lack of IRJV experience. Inexperienced joint venture retailers find that they lack the internal capabilities to immediately address the unique demands that joint ventures create, such as determining suitable structures of joint authority, instigating procedures for conflict resolution, interacting with culturally diverse partners and finding solutions for unanticipated environmental contingencies. This capability void has largely prevented retailers from proactively considering how internal operating practices could accommodate partner decision-making and inter-partner diversity.

Retail international theorists have observed that retail firms are different from production-driven firms (Dawson, 1994; Wrigley *et al.*, 2005). The current study has empirically identified a notable difference between production driven and retailing joint ventures. The study concludes that in contrast to production-driven joint venture activity, retailers appear to have a shorter and intensive adjustment period to effectively co-ordinate operational activity and bridge the corporate and behavioural differences between themselves and the partner. Therefore, a key conclusion that can be drawn from the study is that implementation of the IRJV process appears immediately intensive.

The findings from this study provide some further insights into the relevance of the transaction cost and strategic management theoretical perspectives within the context of IRJVs. While it was not the intention of the authors to test theoretical propositions from these varying perspectives during the research with the case companies, nevertheless an analysis of the findings indicates that both perspectives have merit in

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helping to explain the nature of problems in IRJVs. It is particularly noteworthy that the themes to emerge from this study would appear to be more closely aligned with strategic management thinking. Despite the fundamental differences between the TCE and strategic management perspectives, this study has identified possible linkages between these concepts.

Limitations and future research

This study has produced several relevant findings for the management of IRJVs. However, the findings should be evaluated in the light of several limitations. Such limitations indicate a number of additional opportunities for future research on the post-formation phase of IRJVs. Firstly, the research reported here draws on a very small sample. As such, any analytical generalisations drawn from a limited number of case studies, no matter how carefully sampled and researched, clearly deserve healthy caution. Following on from Hyder and Ghauri (2000), if similar types of studies are carried out with other foreign retailers, and in other countries also, more interesting issues may surface and new insights in IRJV problems may emerge. Secondly, interviews in this study were only undertaken with the international retail partner (in this instance, UK-based retail companies). It is important to note that there are significant logistical and access issues relating to this subject area, in that the retailers and their joint venture partners are naturally reluctant to engage in discussion on the negative aspects of their operations. Considerable efforts were made to secure access to retailers for the purposes of this research. However, future research could attempt to undertake a small number of cases involving the retailer and joint venture partner, thus exploring each party's viewpoints on the problem areas.

Further, empirical research into the joint venture form of international retailing should be welcomed. Future research could undertake further empirical investigation into the problem areas encountered and the root causes of those problems, with particular attention to triggering factors. As the current study relates to problems experienced at post-formation only, future research may seek to examine the barriers that retailers experience prior to forming the joint venture. Further, studies should consider the nature and scope of the problems encountered at various stages of the joint venture life cycle, and indeed may consider joint venture problems within the broader context of the retailer's international development and key threshold periods (Palmer, 2005). Specifically, in terms of the termination of joint ventures, further studies could examine the underlying causes and reasons for termination. It would be incorrect to assume that IRJV instability leads to termination or failure in all cases; the termination of the joint venture may have been planned by the partners. Moreover, it should not be assumed that longer lasting IRJVs equate with success. The problem areas identified in this study should not be considered proxies for IRJV instability, but rather as process-embedded factors that surface, at some point, within the evolutionary trajectory of the IRJV. These problems cause various levels of managerial concern that in turn may constitute precursors for IRJV instability or stability. It is hoped that this paper will help to stimulate debate and further enquiry into the IRJV instability/performance relationship.

The appropriate utilisation of existing theories and concepts from a wide range of management, economics and internationalisation literatures should help develop conceptualisations of the factors influencing the success and failure of retail joint ventures. In recent years, understanding on various aspects of retail internationalisation

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has been developed through the integration of various literature bases such as divestment (Alexander and Quinn, 2002), institutional theory (Bianchi and Arnold, 2004), organisational studies (Burt *et al.*, 2003), organisational learning (Palmer and Quinn, 2005a), and stakeholder theory (Palmer and Quinn, 2005b). By utilising the joint venture and TCE and strategic management theoretical perspectives, this study has responded to calls for greater utilisation of the wider management and internationalisation literatures to help develop insights into retail internationalisation processes and activity. Some of the issues identified within the present study, (i.e. conflict, trust, commitment and communication) are common themes highlighted within the channels management and relationship marketing literatures. Future research should continue to examine the relevance of these and other literatures and theoretical bases to the IRJV context.

Managerial implications

The findings presented here should be of interest to retail practitioners. Retailers partnering with strong local companies, despite corporate perceptions of careful partner selection/due diligence, may experience post formation risk from partner resource limitations. Retailers with limited experience of operating in Asian markets may take for granted the possession of Western management techniques in local partners, and fail to appreciate the ramifications of ignoring cultural and capability differences. Thus, differences in management capability may lead to ineffective collaboration and poor operational performance. The tailoring of the retail proposition, and hence development of the franchise with the consumer, may be impeded by managerial time being directed towards internal conflict within the venture.

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