

Developing a Scale to Study The Relationship Between Relational Capital and Performance of International Joint Ventures Operating in India

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Abstract

The study has developed a scale for measurement of the influence between relational capital on performance of international joint ventures operating in India. The scale has been developed on the basis of a thorough literature review and then refined through expert validation, interviews and group discussions. Various constructs of the relational capital have been identified and listed in the study. The scale items are constructed after rigorous methodological churning. As the study is conceptual in nature, it has to go through empirical evidence. To the best of researcher's knowledge, very few studies have focused on the aspect of relational capital in the context of international joint ventures operating in India. The scale developed is original in nature.

Keywords: Measurement Scale, Relational Capital, Joint Venture

Introduction

Alliances are used as the strategy for competitive advantage, technology transfer, economies of scale and reducing uncertainty and risk (Hergert and Morris, 1987; Anderson, 1990; Ahuja, 1996). Mutual learning is the part of the process; however, it also leads to the dilemma of collaborating or preserving their “core proprietary capabilities”. This becomes more when firms start behaving opportunistically (Khanna et al., 1998). The case becomes more complex in the context of International Joint Venture (IJV). IJV is a special type of strategic alliances which can be defined as the contractual agreement between two or more parties in order to combine their skills, resources, competencies, etc. for better sustainable performance. An IJV involves organizations from different nations with very different cultures, goals, objectives etc. and only growth being their motive to enter into an IJV. Opportunistic behaviour can crop up if there is no

relational capital in their partnership (Gulati, 1995; Zaheer, McEvily, and Perrone, 1998). Thus, due to the increasing number of failures in international joint venture and lack of the relational capital as one of the major reasons for their failures, this study focuses on this aspect in Indian context.

Literature Review

(a) Social Exchange Theory

This theory has emerged from the field of social psychology. This theory, as defined by Homans(1961), is based on the social exchange process which includes exchange of activities, tangible or intangible between at least two parties for some mutual benefits (Fiske, Gilbert, & Lindzey, 2010). Social exchange was initially restricted only to the activities or actions which were contingent on rewarding actions of other social beings (Emerson, 1976). With time, this theory has been extended to all spheres of life including the corporate world (Kwon, 2008).

Social Capital forms the core of this theory which

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can be defined as the sum of actual or potential resources entrenched in the network of relationships of parties involved in this social exchange (Bourdieu, 1986). Social capital is comprised of broadly three elements: the structural, the relational, and the cognitive dimensions of social capital (Nahapiet and Ghoshal, 1998).

Relational capital constitutes the types and patterns of personal relationships developed among people over a period of time such as respect, friendship, mutual trust, understanding, etc. These relationships also influence the behaviour of social beings through which various social motives are fulfilled, for example: sociability, approval, prestige, etc. (Capello & Faggian, 2005).

a. Relational Capital

It has been widely acknowledged by the researchers that social capital (relational capital) is more important than the contractual elements for the governance of any relationship (Madhok, 1995). Relational embeddedness refers to the creation of assets or resources through relationships among different entities which can be used for achieving individual or collective goals (Kale, Singh, & Perlmutter, 2000). Relational capital involves strong ties based on trust between the parties which positively affects the degree of learning in alliances and influences firm's performance (Burt, 2000). According to Watson et al, 2003, relational capital which develops from a strong sense of belonging and a highly developed capacity of cooperation has become crucial for better performance of international joint ventures, especially because it involves firms of different national origin thus requiring higher levels of co-ordination, trust, etc.

b. Factors leading to formation of relational capital

There are various factors leading to the formation of relational capital in a partnership but this study,

after an extensive literature review, has shortlisted five major factors leading to relational capital as listed below.

i. Goal Clarity

Goals can be defined as the various performance standards, quotas or deadlines which provide a direction to measure the organizational achievement (Erez & Kanfer, 1983). As international joint ventures involve different firms with varied objectives, it is very important to have goal clarity in order to build higher relational capital for better performance (Dwyer, Schurr, & Oh, 1987; Morgan & Hunt, 1994).

ii. Partner Fit

It is the complementarity and compatibility among the various alliance partners (Harrigan, 1988). It is one of the most important steps in forming and sustaining international joint venture and any discrepancy in the partner fit can lead to termination of the venture company (Lorange & Roos, 1992; Kale et al, 2000). Thus compatibility of resources, skills, objectives, cultures, must be there in order to build relational capital for better performance (Kwon, 2008).

iii. Conflict Management

Conflicts among venture partners often lead to termination or failure of international joint venture, thus conflict management, which refers to the development of feelings of procedural justice between the alliance partners whereby partners view the decision process to be fair and just, is essential for building better relational capital (Kim and Mauborgne, 1998). Such feelings help in building higher levels of trust and commitment among venture partners, thus leading to better capital formation and performance (Kwon, 2008; Park et al, 2009).

iv. Flexibility

“Flexibility refers to the extent to which the rules governing the exchange process are changeable as the exchange relationship changes along with the mutual needs of the parties” (Ashtiani, 2014; Inkpen & Tsang, 2005). As IJVs involve firms with varied national origin, conflicts are natural due to various organizational and cultural differences but all the partners should be flexible enough to make efforts to resolve those conflicts in an unbiased manner (Datta & Rasheed, 1993). Thus, flexibility among the partners also helps in building better relational capital.

v. Information Exchange

As different firms are merged through IJVs, there is a major issue of how much information is to be exchanged among partners and what information is to be held back by them in order to protect them from the opportunistic behaviour of the other partners (Kwok et al, 2018). In the early stages mergers, employees’ relationship, commitments are usually less between the IJV partners and there will be little need for trust and flows of information. However, as the relationship matures, there will be a positive association between trust and information, for trust cannot be built up without the exchange of information between partners (Wilson, 1995). Thus, information exchange between IJV partners helps in building relational capital.

b. Relational Capital & IJV learning

Close interaction between individual members of the concerned organizations acts as an effective mechanism to transfer or learn tacit know-how across the organizational (Von Hippel, 1988 and Marsden, 1990). In business relationships, trust and commitment can provide a strong link and help cross-border knowledge sharing which helps in building up of relational capital in IJVs (Mäkelä, 2007). A social exchange approach provides the

basis for such interaction and exchange. Strong relational capital leads close interaction between alliance partners. It can thus facilitate exchange and transfer of information and know-how across the alliance (Kale et al, 2000).

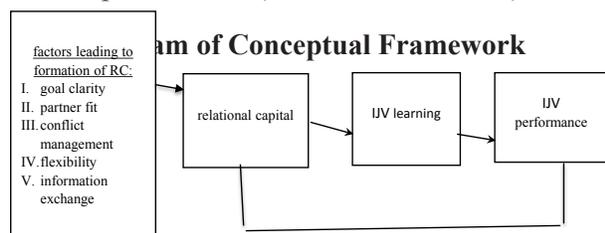
c. IJV Learning & Performance

The capabilities derived through learning provide a lasting competitive advantage and enable organizations to survive (Choi and Lee, 1997). An IJV relationship provides the learning opportunities for building capabilities which can be used for achieving competitive advantage (Lyles and Salk, 1996). Empirical research on alliance performance has supported the positive effects of learning from relational capital of IJVs on performance.

d. Relational Capital & IJV Performance

Formation of relational capital leads to a positive environment with higher levels of trust and commitment among the IJV partners where all the partners of the IJVs gain synergy and cooperation and attempt for achieving IJV’s shared goals (Gulati, 1995). When parties in the alliance trust each other, there is simply little need for contractually specifying actions. Due to this relational governance, there are lower transaction costs and better adaptive responses. RC becomes necessary for the IJVs by nurturing continuance and bilateralism when conflicts arise. Thus, RC is important for the IJVs to increase odds of continuance and protection of default of investments from premature and costly termination. Strong RC usually produces close contact between alliance partners. It can inspire learning by enabling exchange and transfer of information and know-how across the alliance boundary (Kale et al, 2000). Therefore, building RC is very important for enhancing performance of the IJVs in the country. It is argued that thus RC stands at the core of the inter-partner relationship, reflecting the relational quality and contributing to

the IJV performance (Levin & Cross, 2004).



Proposed Research Hypotheses

H1: There is significant impact of identified factors on relational capital.

H2: There is significant impact of relational capital on IJV learning.

H3: There is significant impact of IJV learning on IJV performance.

H4: There is significant impact of relational capital on IJV performance.

Methodology

This researcher conceptualized and developed the constructs. This is done after rigorous literature reviews (Onwuegbuzie & Weinbaum, 2017). In addition, the researcher has consulted a diverse set of experts to get diverse perspectives. The researcher then set up focus group meetings of these experts to take advantage of the ‘group dynamics’, ‘synergies’ and ‘social processes’ of focus groups (Morgan, 1998). It is important for the instrument developer to include the respondents on whom the instrument will be administered. Detailed field notes were kept for audit trail as contextualization is important for optimally reliable and valid questionnaire (Halpern, 1983; Banks & McGee Banks, 2001).

On the basis of literature, collected data are categorized on the basis of the information types and then coded for each category (Glaser & Strauss, 1967). The researcher has conducted rounds of interviews and group discussion with focus groups till the stage when any new or relevant information

stopped emerging (Lincoln & Guba, 1985).

All the constructs have been identified and items/variables related to constructs are written to link with the theory extracted previously. In this manner, etic viewpoint is also gained. The industry and academic experts are asked to provide feedback on the items for contextualization and ensure inductive and deductive approach (Banks & McGee Banks, 2001).

The initial instrument was pilot tested, each item was checked for clarity, relevance, tone, contextuality and time taken to answer. Content-related validity and construct-related validity was checked.

Scale Items

Constructs and their items

The author is proposing, five constructs namely Conflict Management(6 items); Information exchange (5items); Partner Fit(5 items); Flexibility (5 items); Goal clarity(4 items); Relational Capital (5 items); Learning: Knowledge Acquisition (11 items)

Details are in the table in appendix

Control Variables

- Approximate size of the company in terms of number of employees
- Approximate age of the company
- Company belongs to which of the following industry
- age group of the respondent
- position of the respondent in the organisation
- Gender of the respondent

Future Direction

The framework and scale developed by this researcher need to be empirically tested in order to check its reliability and validity. To generalise its validity, the researcher will be conducting an

empirical survey of selected international joint ventures operating in India from the year 1992. Purposive sampling will be used in the empirical research.

The HR managers and other top and middle level managers of IJVs will form the population of the study. Sample size will be determined with the help of well cited 10 times rule of PLS-SEM (Hair, et. al., 2016). This rule brings out the required minimum sample to be 150, thus research will try to conduct a survey of around 200 respondents to justify the applicability of the proposed research framework. Further after data collection, SMART-PLS-3 software will be applied for data analysis purpose due to its various benefits and some restrictions on the data set such as smaller sample size. Researchers also have a vision to triangulate the study with a case study if needed.

Conclusion & Future Direction

The study is an early attempt in the area of attaining sustainable competitive advantage in international business in Indian. There are very few empirical studies on International Joint Ventures in India, specially focusing on the relational aspect between the partners of IJVs. Relationship building is a neglected area in international business leading to a higher failure rate among IJVs. Thus, this research opens up new avenues for attaining sustainable success of IJVs by improving the relational aspect.

As the present study is conceptual in nature, and develops a conceptual research framework, testable hypotheses and a scale to measure various constructs of the framework. Thus, it creates a model for empirical study. While both framework and the scale are to be empirically validated on the basis of collected data in the prescribed framework. Then, reliability of data set needs to be tested. Further research will be conducting on the basis of an empirical survey of selected international joint

ventures operating in India from the year 1992. Purposive sampling will be used in the empirical research.

Thus this study is a step towards initiating research on relational capital context in order to make an IJV successful. This study will be beneficial for both researchers as well as corporate managers for formulating better strategies and contingency plans.

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Constructs and Their Items

| Constructs | Scale Items |
|---------------------------------|--|
| Conflict Management | <ol style="list-style-type: none"> 1. In the company certain mechanism has been established and used to address or resolve conflicts. 2. In the company managerial interaction are closely monitored for identifying potential conflicts. 3. There is strong two-way communication while resolving conflicts in the company. 4. Top management is involved in resolving conflicts in the company. 5. Great emphasis is placed on dealing with cultural obstacles while resolving conflicts in the company. 6. It is common to establish joint teams to solve operational problems in the company. |
| Information exchange | <ol style="list-style-type: none"> 1. Exchange of information between parent company and Venture Company takes place frequently, informally, and openly. 2. There exists a transparency between parent companies and Venture Company while dealing with each other. 3. Proprietary information is shared between parent companies and Venture Company if required for proper functioning of Venture Company. 4. Exchange of information related to changes in the organizations' strategies and policies take place between the departments across in the company. 5. Parent firms provide information only in specific area in the venture company. |
| Partner Fit | <ol style="list-style-type: none"> 1. The company benefits by the high Complementarity of the resources of the venture partners (e.g., technology, brand, funds). 2. The company benefits by the high Complementarity of the capabilities of the venture partner (e.g. marketing, R&D, procurement). 3. The company benefits by the high Complementarity of the product lines and items of the venture partner. 4. The company benefits by the high Complementarity of the local and foreign market access of the venture partner. 5. For the company, both parent firms have aligned objectives. 6. The company have consistent operating philosophies. 7. The company have consistent personnel management policies. 8. The company have consistent corporate culture and management. 9. The company have consistent organizational structure. |
| Flexibility | <ol style="list-style-type: none"> 1. When an unexpected situation arises, the company prefers to work out a new deal with the parent firms involved, rather than holding on to original terms. 2. When an unexpected situation arises, parents are open to modify their agreement. 3. Parent firms are willingly make adjustments in the on-going relationship to cope with changing circumstances in the venture company. 4. Creativity is encouraged and rewarded in the company. 5. Employees are given autonomy to address obstacles in their work in the venture company. |
| Goal clarity | <ol style="list-style-type: none"> 1. The company develops shared goals that are measurable. 2. The company seek compatible goals with the parent firms. 3. Objectives are clearly written in the company's profile. 4. The company follow the ideology of "sink or swim" together. |
| Relational Capital | <ol style="list-style-type: none"> 1. The company is characterized by mutual trust at multiple levels. 2. The company is characterized by mutual respect at multiple levels. 3. The company is characterized by high reciprocity at multiple levels. 4. The company is characterized by personal friendship at multiple levels. 5. There is close, personal interaction at multiple levels. |
| Learning: Knowledge Acquisition | <ol style="list-style-type: none"> 1. The company has been assisted in new marketing expertise from the parent firms. 2. The company has been assisted in new product development from the parent firms. 3. The company has been assisted in new technological expertise from the parent firms. 4. The company has been assisted in new managerial practice from the parent firms. 5. The company has been assisted in new R&D expertise from the parent firms 6. The company has been assisted in new manufacturing/production processes from the parent firms. 7. The company has been assisted in knowledge about foreign cultures and tastes from the parent firms. 8. Company management conducts a 'collective review' to assess the progress and performance of its company. 9. The firm sets up the mechanisms such as informal meetings, product seminars, and apprenticeship to facilitate knowledge exchange across functional boundaries. 10. Company managers with substantial prior experience in managing alliances are usually rotated across some of the company's key positions. 11. Managerial incentives are used to encourage individual managers to share their personal alliance management experience and know-how with other managers within the company. 12. Company managers attend 'in-house' training programs on management' whenever they are assigned to manage or work with any alliance. 13. Company managers attend externally conducted training programs on 'alliance management' whenever they are assigned to manage or work with any alliance. 14. The company provides opportunities for 'on-the-job' alliance training to individuals who are relatively new to managing alliances. 15. The company provides managers access to documented and codified information and know-how on its prior and on-going alliance experience. |
| Performance: Financial | <ol style="list-style-type: none"> 1. The company has achieved satisfactory sales growth in comparison with rivals over last 5 years. 2. The company has satisfactory profitability in comparison with rivals over last 5 years. 3. The company has achieved satisfactory return on investment in comparison with rivals over last 5 years. 4. The company has achieved satisfactory market share in comparison with rivals over last 5 years. |
| Performance: Innovation | <ol style="list-style-type: none"> 1. The company has positive effect on developing successful new products. 2. The company has positive effect on better product quality. 3. The company has made modifications and/or innovative improvements to products/processes. 4. The company is able to make progress in R&D. |
| Satisfaction | <ol style="list-style-type: none"> 1. The company has achieved synergies in joint sales and marketing efforts. 2. The objectives for which this company was established are being met. 3. The company has achieved satisfactory competitive advantage over competitors. 4. The company is able to reduce operational cost and increase operational efficiency. 5. The company is satisfied with the way in which R&D is directed and progressed. 6. The company is satisfied with technology development in recent years. |