Bachelor thesis

How can national cultural differences among participating companies of a joint venture positively influence on profitability of the joint venture?

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Chapter 1 Introduction

1.1 Problem Indication

Nowadays, As a result of the globalization of markets, many firms realized that they were in short of resources faced with the fierce competition in global markets. (Glaister & Buckley, 1998) The firms change the way they engage in business to sustain or to obtain their global competitive advantages.

According to Glaister and Buckley (1996), the international strategic alliances (ISAs) makes it possible for firms to share costs and risks, to facilitate international expansion, and to develop new skills and technologies.

Joint ventures are one kind of the ISAs, the occurrence of which has been dramatically increasing nowadays, and it helps the companies build competitive advantage in their field. In this paper, joint ventures are focused on ones among cross-border firms.

The great increase in the amount of joint venture is driven, for helping firms to cope with the globalization by gaining access to greater resources than their own. (Makino & Beamish, 1999)

Joint ventures help companies to strengthen their competitive advantages indeed. Nevertheless, joint ventures do have the shortcomings. As Peng and Shenkar (2002) mentioned in their report, despite the exponential growth in joint ventures, high failure rates are also reported. In part, this is because joint ventures are often accompanied by
considerable risks, while management with cultural differences from both national and corporate aspects adds up to the difficulties associated with the launch of a successful joint venture.

Based on past literature reviews, many of them have shown that cultural differences in joint ventures can weaken information exchange and organizational learning, which then lead to misunderstanding and mistrust. Furthermore, these coordination difficulties and differences in expectations, in turn, are thought to increase the costs associated with cooperation and subsequently lower the chances of successful performance of joint ventures (Park & Ungson, 2001). The performance may have a great impact on the level of profitability of joint ventures. If the performance is successful, the probability of high profitability might be large. Otherwise, a small probability might be expected.

The purpose of this paper is to find out the impact of national culture differences on profitability of joint ventures. In addition, we will know what the determinants on profitability of joint ventures are. In the end, we will see that national culture differences have both positive and negative influences on profitability of joint ventures. But in this paper, emphasize will be put on positive influences.

1.2 Problem statement

From the problem indication, the problem statement followed:

How can national cultural differences among participating companies of a joint venture positively influence on profitability of joint ventures?
1.3 Research Questions

In order to answer the main question clearer, the topic will be discusses into several sub-questions:

- What are the determinants of profitability of joint ventures?
- What are the impacts of different national culture on organizations in different countries?
- What influences could national culture differences bring to profitability of joint venture? (both positive and negative influences will be discussed).

1.4 Relevance

In this dynamic environment, the competition between companies never stops. A lot of companies realize that they should use alliances to strength their comparative advantages. Thus, a number of international joint ventures are formed across different countries in the past 30 years (Hambrick, Li, Xin and Tsui, 2001) Although joint ventures are expected to be of high profitability to participating companies, a lot of them are end up as failures (Das and Teng, 2000) These unsuccessful performances of joint venture mainly result from national culture differences among partners. (e.g., Brannen and Salk, 2000; Killing, 1983) National culture differences are often associated with increased difficulties in business communication among the partners. In this paper, the impacts of national culture differences on profitability of joint venture will be discussed, which will be helpful for managers in multinational companies to discover the right ways of tackling the management problem on the distinct cultures.
Furthermore, most researches in this field put emphasize on cultural factor being one of the determinants of a successful joint venture. However, in which kind of situations or to what extent, national cultural differences can bring positive influences to joint ventures are seldom studied. This thesis will contribute to the research field on the positive impact of national cultural differences on profitability of joint ventures. It will provide more insight in the relationship between national cultural differences and joint ventures.

1.5 Research Design

It is a descriptive research to obtain the information for the thesis. And the specific method for this thesis is a literature review.

The key concepts, which will be investigated for this thesis, are:

The definition of national culture & national culture differences

The definition of joint ventures that are already formulated in existing literature

The determinants of a successful joint venture

Explanation of the impacts of national culture differences generally in business, based on the existing literature

1.6 Data collection

This thesis is written exclusively by using secondary data, based on the existing literatures. The data will be collected from the scientific database of the university’s library.
These articles will be searched via VPN connection in the university’s library. The suitable databases for this thesis are googlescholar, ABI/INFORM and Journal Articles UvT.

Search terms will be: “Joint Venture, culture”, “joint venture, profitable”, “performance of joint venture”, “national culture differences” etc.

The validity of the literature used in this study is relied upon since the articles are published in well-known academic literature written by academic professionals. These high quality articles will be very helpful for answering the problem statement in the thesis.

1.7 Overview of the Rest of the Chapters

In chapter 2, the thesis will discuss the determinants of profitability of joint ventures. Definition of JV, difference between partners in a joint venture and determinants of profitability of joint venture will be discussed. In chapter 3, the thesis will expound concepts of national culture and national cultural differences. Subsequently, impacts of national cultural differences on companies in different countries will be discussed. In chapter 4, influences of national culture differences bring to profitability of Joint Venture will be elaborate described. In chapter 5, the problem statement will be answered based on the studies of chapters before. Chapter 6 will give the conclusion for this thesis and the limitation will be discussed briefly as well.
Chapter 2 literature reviews for the joint venture

2.1 Introduction

This chapter will discuss the definitions of the joint venture according to the existing literatures. Then it turns to discuss the reasons for companies form a joint venture and differences of partners in a joint venture are discussed afterwards. Finally, the determinants of joint venture performance are summarized based on the empirical researches.

2.2 Definitions of the joint venture

As international competitiveness become increasingly critical, many firms are using alliances to enter new markets, learn new skills, share risks and transfer knowledge, resources and also competence. (Beamish and Inkpen, 1995) Therefore, the use of joint ventures, in both international and domestic contexts, has been increasing dramatically in recent years (Geringer and Woodcock, 1989; Harrigan, 1988). Joint ventures allow the firms to improve their comparative advantages by combining the complementary assets of the foreign and local partners (Hamill and Hunt, 1993).

Prior to discuss the determinants of a successful joint venture, it is necessary to firstly brief the different views on the definitions of a joint venture that exist among the literatures.

In respect to the definitions of a joint venture, a lot of scholars have addressed different
concepts from different aspects. Mariti and Smiley (1983) define that a joint venture is cooperation agreement in which two independent legal companies establish a third independent legal company. Besides, based on the article of Harrigan (1985), a joint venture is defined as a third cooperative entity with at least two businesses as parents. Furthermore, according to the research of Park and Ungson (1989, p.281), the definition of a joint venture can be considered as "a contractual arrangement that creates a separate legal entity in which the parent firms hold ownership interests under conditions and provisions that are specified by a legal document" (Park and Ungson,1989, p.281; Murray & Siehl,1989).

Therefore, in terms of joint ventures among multinational firms, a joint venture implies that a foreigner firm cooperates with a local partner to establish a third firm. This third firm can help the participant firms share risks and also improve their comparative advantages. Meanwhile, this third firm needs to be subjected to joint controls of its parent firms which are from different organizational backgrounds and different cultural characteristics.

2.3 The reasons to form a joint venture

After understanding the concepts of joint ventures, the study now moves to the reason to a joint venture. Why does one company cooperate with another company? Why would they like to find partners from different countries? What are the motives of all the firms participating in a joint venture? In general, joint ventures allow its member organizations to spread risk among them. In addition, joint ventures increase its members’ capacity for capital investment and financial support (Bernerns,1995). And
more important, a joint venture is a source of learning the merits of the partners for all the firms involving in a joint venture. (Meshi and Riccio, 2007)

Harrigan(1985) stated the reasons to form a joint venture. Based on his study, there are three benefits from a joint venture: “internal benefit, competitive benefit and strategic benefits.”(Vaidya, 2006, p.189) Let’s discuss these three benefits briefly. Internal benefit means the firms can generate internal strengths from the contributions of partners in the joint venture (Harrigan, 1985). The internal strengths include risk sharing, generating financing, "obtaining learning, obtaining managerial knowledge” (Vaidya, 2006, p189) and so on. Second one is Competitive benefit. This benefit refers to joint ventures can be a powerful tool to reinforce competitive strengths of the firms. Competitive benefit includes “influence over industry structure”, “response to globalization” and “creation of more effective competitor” (Vaidya, 2006, p189). The last one is Strategic benefits. Strategic benefit implies that joint ventures help the firms to change their strategy positions. For example, one biscuit company can change their original market from only producing biscuit to producing all the kinds of breakfast cereal after cooperating with a food manufacturer. And also the biscuit company can widen their market from the domestic market to the international market. (Vaidya, 2006)

Besides the study of Harrigan on the benefits from a joint venture, Kogut (1988) also discussed the motives to enter into joint ventures from another three perspectives. These are transaction cost approach, strategic behavior approach and organizational learning approach. Transaction cost approach refers to the firms can decrease or minimize the cost of the production for the firms by entering into a joint venture (Kogut, 1988; Vaidya, 2006; Tsang, 2000). Strategic behavior approach is the same as
“strategic benefit” (Vaidya, 2006, p189). Furthermore, Vernon (1983) and Kogut (1988) also mentioned that joint ventures can reduce the risk from strategic uncertainties. Organizational learning approach also implies that a joint venture is a source of learning from partners. The firms can generate advanced knowledge from partners. Besides, a joint venture is also a good opportunity for the firms to know more and “know-how” from another firms. (Vaidya, P189, 2006)

In this section, two studies set forth the reasons to enter into a joint venture from different aspects. After understanding the reasons for firms to form a joint venture, in next section, the differences between companies will be discussed.

2.4 differences between companies in a joint venture

As mentioned above, Joint ventures are formed by two (or more) different companies. It is like two people who are married. Undoubtedly, these two people are from different family background. They probably have different personalities, values, habits, interests and life styles. If they want to be happy together, there can surely be no doubt that they need to understand each other and give enough support to each other. In this light, if the companies participating in a joint venture want to be longevity or get high profits from the cooperation, they should understand the partners’ organizational and cultural backgrounds to avoid the potential conflicts. In other words, to handle all the differences from the partners is a prerequisite for a successful joint venture. (Beamish and Wang, 1989; Davidson, 1987)

Therefore, it is important for the companies participating in a joint venture to know which kinds of difference are between the partners, because differences between partners
often increase the risk of misunderstanding, mistrust, thus lead to the dissolution of a joint venture. (Child & Yan, 2003)

Many differences between participant firms in a joint venture are discussed from different aspects by researchers. However, this paper studies on the relationship between national cultural differences and profitability of joint ventures. Besides, the most important section in this chapter is to explain the determinants of profitability of a joint venture. Thus, only the differences in cultural factor, which have a strongly relationship with determinants of profitability of a joint venture, will be discussed.

Based on the experts’ researches about differences between the firms participating in a joint venture, two differences of them need be paid attention in this paper. These are differences on leadership styles and differences on objectives to enter into a joint venture. (Larsen, Rosenbloom, Anderson and Mehta, 1999; Le, 2009) Even though differences on financial management also direct affect the profitability of a joint venture, they don’t belong to cultural factors. Thus differences on financial management will not be taken into account in this paper. The paper only discusses cultural factors.

Firstly, let’s have a look at differences on leadership styles. Leadership styles are one of important components of management styles. It is the process whereby “people are inspired and motivated to move in some desired direction.”(Larsen et al., 1999) leadership is directly influenced by national culture. According to the article of Larsen et al., there are four kinds of leadership styles----participative, supportive, directive and achievement oriented leadership styles (e.g. Teas, 1982; Daft, 1988). Different leadership styles are influenced by different types of national cultures. If firms, which are from different types of national cultures, form a joint venture, the managers in these
firms should know that a leadership styles that is effective in one national culture may not be effective in another national culture. In a joint venture, it brings direct negative impacts on profitability of a joint venture when the managers just adopt their own leadership styles. Because differences on leadership styles will give rise to a disagreement among the firms, that will lead to higher uncertainty of a joint venture.

Secondly, besides different leadership styles, the other difference is different goals for a firm entering into a joint venture. A number of different aims will guide firms to enter into a joint venture. For example, some of them want to earn more profit from the cooperation. Other of them may have a longer term goal---developing their brands (Hamil & Hunt, 1993). Or some of them only want to learn more high-end technology from other partners. Different goals can cause the joint venture to break up (Vaidya, P189, 2006). Similarly, Nguyen (2009) found that the greater the differences on goals between partners, the higher uncertainty on the joint venture. The key to uncertainty on a joint venture is that the difference on goals may influence different expectations on the joint venture. The different expectations will lead to different perspectives on the same matter. The different perspectives always need communication and negotiation to get the consensus. If the differences are wide, it is too time-consuming for the partners to get on the same page. Therefore, performance of the joint venture will be influenced negatively by differences on goals (Nguyen, 2009).

As Meschi & Riccio (2008) stated, differences between partners often results in ineffective communication, even conflict. And quite often results in the dissolution of a joint venture. Do firms in a joint venture need to settle the differences between them? Or are there the elements that can guide a joint venture successful? In next section, we will
discuss the determinants of profitability of a joint venture.

2.5 Determinants of profitability of a joint venture

After discussing two differences between the partners, it is interesting to know how a joint venture can be successful, which refer to high monetary profit.

First of all, partner selection (Vaidya, 2006; Dirk Holtbrugge, 2004) is one of the most important criteria to keep joint ventures successful. The firms need to evaluate the potential partners then to select the most efficient one, which is the best one to make up the weakness of the firms (Hamill & Hunt, 1993). Otherwise, if the firm chooses the wrong partner, this wrong choice will probably hurt the firms’ own reputation, disappointed the customers and also lost the potential partners. Thus lead to the joint venture unsuccessful.

There are three criteria for selecting an appropriate partner. These are “compatibility of strategies, resources and corporate cultures” (Holtbrugge, 2004, p.264; Brutheres and Wilkinson, 1993; Geringer, 1988; Stiles, 2001). Strategic compatibility refers to the firms should have congruent strategies on difference markets or with difference partners (Holtbrugge, 2004, p. 265). Second one is resource compatibility. In terms of resource compatibility, there are two kinds of cooperation. The firms use joint sourcing, production or distribution to achieve economic of scales. This cooperation calls “scale collaboration”. (Holtbrugge, 2004, p. 265, Hennart,1988) The other one is link collaboration, it means “the position of the partners is asymmetrical” (Holtbrugge, 2004, p 265).For instance, one partner has greater financial capital and advanced
management structure. Other partner has an access of local market or is familiar with government policy in the local market. Two partners are consolidated in new resource integration. A third one is cultural compatibility. This criteria of partner selection has been studied by many researchers. They all agree that cultural compatibility as “a soft factor” has a strong and direct influence on efficiency of a joint venture (e.g. Park and Ungson, 1997; Lane and Beamish, 1990). Based on studies of culture compatibility, we know that cultural compatibility not only refers to national cultures but also cooperate cultures. So if the cultures of different companies can be compatible in a joint venture, it can enhance mutual understanding and trust between partners. Thus, it can increase efficiency of a joint venture (Holtbrugge, 2004). In this paper, national culture is emphasized.

After selected a right partner, second determinant is management structure. Many researches states that one of the main reason for a joint venture failure is disagreement over management structure or specific routines (e.g. Hamill and Hunt, 1993; Beamish, 1988) Based on the studies of Holtbrugge(2004), Vaidya (2006) and Killing (1983), two kinds of management structures are demonstrated. These are dominant parent structure and shared management structure. Dominant parent structure refers to the asymmetric power relations among partners. This structure makes the decision more flexible and also makes the decision-making process less time-consuming (Holtbrugge, 2004). It means the dominant partner could decide by themselves. Other partner only need to carry out the decision which from the dominant partner. However, this structure will cause the negative emotions from the subordinates (Holtbrugge, 2004). Shared management structure refers to symmetric power relations among partners. This
structure can enhance mutual understanding and trust. But this structure is more time-consuming, less flexible and more conflict intensive (Holtbrugge, 2004; Holtbrugge, 1995). According to Killing et al, the dominant management structure has lower failure rates than shared management structure. They also believe that dominant management structure often makes joint venture easier to manage and more successful operated. (e.g. Killing 1983; Beamish, 1988) Thus, we can believe that a dominant management structure can be a determinant of profitability of a joint venture.

Last but not least, good negotiation and communication is one of the key determinants as well (Trafford, 2006; Vaidya, 2006; Holtbrugge, 2004). As Trafford (2006) mentioned, “many business alliance fail to meet expectation because little attention is given to nurturing the close working relationships and interpersonal connections that unite the partnering organizations” (Trafford, 2006, p. 121; Weitz and Jap, 1995) It means an awareness of good communication is essential within a joint venture for the effectiveness of a joint venture (Jain, 1987). As we all know, between the firms of a joint venture, national cultural diversity is a common phenomenon. The firms from different cultures will see the market, the opportunity, the strategy and the management style through different lenses (Das and Rahman, 2009). Such kinds of diversity increase the chance of misunderstanding and misinterpretation between the partners. Therefore, an efficient negotiation between partners plays an important role in a joint venture. The negotiation and communication not only contribute to unified goals and strategies, but also build up the mutual trust and understanding between the partners.
2.6 summary

This chapter started with a discussion of the different views on the definitions of joint ventures and reasons to enter into a joint venture. It then turned to discuss the differences between partners in a joint venture. Differences on leadership styles and goals are emphasized. Why were only these two mentioned? Because national culture difference is the main subjective in this paper, leadership styles can be influenced by national cultures directly. In turn, differences on goal need more communication and negotiation between partners. Good communication and negotiation is one of determinants of profitability of a joint venture, which were also discussed in this chapter. Finally, the determinants of profitability of a joint venture were summarized based on different views of researchers. In next chapter, the study will focus on national cultural differences. National culture differences reflect on the companies in different countries will be discussed detailed as well.
Chapter 3 literature review of national culture differences

3.1 Introduction

This chapter will discuss the definitions of national culture and Hofstede’s opinion on national culture differences are elaborate described. After that, the discussion will be focused on the impacts of national culture differences on the organizations in various countries.

3.2 Concepts of the national culture/differences

In forming a joint venture, the partners will transfer their resources that required for the operation to the joint venture. Apart from their tangible contribution, the partners also bring to the joint venture their own national beliefs, values and habits (Meschi and Riccio, 2008). These all belong to national cultures. Thus, it will be helpful and interesting to study deeply the issues of national cultures, especially, national cultural differences.
3.21 National culture

It is difficult to give a perfect definition of national culture. As culture is an integrated pattern of human knowledge, belief, and behavior depend on the capacity for representative thought, it is not easy to define by using one concept.

Trompenaars (1994) defined culture as “the shared ways in which groups of people understand and interpret the world” (Trompenaars, 1994, p3,) Besides, Schein (1985) and Schneider (1989) defined culture as a system of shared values and beliefs. (Berkema and Vermeulen, 1997; Schein, 1985; Schneider, 1989) In other words, culture is a set of attitudes, beliefs, norms and behaviors that distinguish one group of people from another. Our own culture guides our norms, behaviors and goals. Different cultures will bring about different attitudes and understandings on a same problem.

3.22 National culture difference:

Based on the concept of culture, an understanding of national culture differences can provide a competitive advantage if managers can use this understanding to correctly connect internal information with the external environment (Newman and Nollen,1996; Powell,1992).

The measure of culture difference is normally used by the measure of cultural distance. The most commonly used measure of cultural distance is the five cultural dimensions of
Hofstede. Even though Roberts and Boyacigiller (1984) criticizes this measurement. They believe that “using countries as a unit of analysis to address cultural differences is an obvious simplification because cultural differences do not strictly follow country border” (Berkema and Vermeulen, 1997, p. 860). The five cultural dimensions are still endorsed by various researchers. Moreover, the five cultural dimensions “allows for the comparison of a large number of different cultures in a quantifiable manner” (Berkema and Vermeulen, 1997, p. 846) It is easy for us to see the cultural differences between partners by comparing certain manners. And the five dimensions not only state the extent to which cultures are different, but also in which aspect they differ. (Berkema and Vermeulen, 1997, p. 860).

His five dimension are power distance, Individualism/Collectivism, Masculinity/Femininity, uncertainty avoidance, long-term orientation.

Power distance: It refers to the acceptance of a country of inequality in power distribution. When power distance is high, hierarchy in organization relationships and dictatorship in management style are accepted. When power distance is low, there is equality between people in organization and decision-making process (Fisher and Ranasinghe, 2001; Swierczek,1994).

Thus, in high power distance cultures, “inequalities in authority” are accepted and common. In contrast, in low power distance cultures, the power “should be shared or at least attainable by all” (Richards and Yang, p117, 2007)
Individualism/Collectivism: It means to what degree, people define themselves apart from their group memberships. When individualism is high, “there is priority for individual needs and achievements” (Fisher and Ranasinghe, 2001, p344,) when collectivism is high, “social group needs and benefits take precedence” (Fisher and Ranasinghe, 2001, p.344; Swierczek, 1994) Thus, individualistic cultures are concerned about “self-face maintenance” (Fisher and Ranasinghe, 2001, p. 345). People more like making the decision by themselves or from their own interests. However, in collectivist cultures, people are concerned with “self-face and other-face maintenance” (Fisher and Ranasinghe, 2001, p. 344; Swierczek,1994). In this culture, people are more interdependence and mutual obligations (Fisher and Ranasingh,2001; Swierczek,1994).

Masculinity/Femininity : it represents” the degree to which people prefer values of success and competition over modesty and concern for others” ( Barkema and Vermeulen, 1997, p847). Masculinity refers to a focus on “material success”. In contrast, femininity refers to a concern with the “quality of life” (Hofstede, 1997, p82) As such, masculinity focuses on rational thinking and achievement, and femininity focuses on emotional thinking and affiliation with others (Fisher and Ranasinghe, 2001).

Uncertainty avoidance: It refers to the “extent to which the members of a culture feel threatened by uncertain or unknown situation” (Hofstede, 1999, p113). When uncertainty avoidance is high, there is an avoidance of disagreement and risk. People
desire for organizational stability (Fisher and Ranasinghe, 2001). Under this situation, changes are “perceived as dangerous” (Richards and Yang, 2007, p118). When it is low, risk, conflict and ambiguity of situation are tolerated. In this situation, people like to change and risk seeking.

Long-term orientation: Technically, the fifth one was developed by Hofstede and Bond---long-term orientation, which “captures the extent to which people have a future-oriented perspective rather than a focus on the present” (Barkema and Vermeulen, 1997, p847). This is also called “Confucian dynamism”. People in this society are dynamic in their thinking, and they are cautious in investment (Hofstede and Bond, 1988). However, in the society with little long-term orientation, people expect quick results. This means “a more static attitude” (Barkema and Vermeulen, 1997, p849).

3.3 National culture differences reflect on the companies in different countries

After going through the five cultural dimensions, how culture differences will impact organizations in different countries will be discussed in this chapter. In this paragraph, five culture dimensions will be discussed about influences on the companies in different countries in detailed.
Power distance

In the companies, power distance is “showed on the accepted degree of formal hierarchy and centralization; the degree to which employees feel the need to be dependent on their supervisors” (Irani and Oswald, 2009, p.71; Hofstede, 1983b). In other words, in high power distance cultures, less powerful members is considerable depend on their managers who are more powerful to be the decision-makers. In this situation, people respect for authority. “It would be expected that there is a leader who indicateds rules and regulations ” (Larsen, Rosenbloom, Anderson and Metha, 1999,p42) At the opposite pole, in low power distance cultures, equality is the standard of the society. People are not afraid to fight for themselves, even with their managers. (Irani and Oswald, 2009) This environment encourages more participation indecision making from less powerful members.

Thus, in the society with high power distance, the employees are normally submissive. The efficiency of working is easily to improve. But they are more lack of creation. They are unimpassioned on their jobs. They have less their own opinion than that with low power distance. Relatively, in the society with low power distance, people feel uncomfortable with rigid rules and hierarchy. They feel free to express their own ideas. They are more creative. Such kind of relax environment brings more brainstorming and innovation. However, it will hold off the whole working process. Sometime, it will be more time-consuming, because there is lack of strict rule to administrate employees. (Wong, Everett and Nicholson, 2008; Barkema and Vermeulen, 1997; Wang, Lin, Chan and Shi, 2005)
Individualism/collectivism

The society with individualism places value on self-interest and competitive achievement (Fisher and Ranasinghe, 2000). The decision about a person’s life are determined by himself/herself. In contrast, in the society with collectivistic, the value places on group-interest. Individual options are depend by “loyalty is owned to the group or organization” (Hofstede, 1980, p.48).

In practice, power distances are discussed with Individualism/Collectivism very often. The society with high power distance is probably connected to collectivism. And the society with low power distance normally belongs to individualism. In the former society, employees more obey the company rule and follow managers’ decision very easily. They are interdependent among group members to “assure the success of the whole” (Larsen, Rosenbloom, Anderson and Metha, 1999, p. 40). But since they normally obey the rules, they cannot be creative. Relatively, the latter one emphasise more on their own opinions. People strive to achieve a goal where their contribution could be noted. (Larsen, Rosenbloom, Anderson and Metha, 1999, p. 40) they also expect some rule which can give their rewards for their achievement. People are more creative. they like to know new knowledge and accept different opinion or behaviour. However, sometimes it is not easy to cooperate with each other to get a uniform decision in a short period. (Barkema and Vermeulen, 1997; Wang, Lin, Chan and Shi, 2005)

Masculinity/Femininity

Masculinity focuses on the competition and personal success. They focus on “material
success” (Hofstede, 1997, p.82) in opposite, Femininity focus on “quality of life” ” (Hofstede, 1997, p.82). If there is a trade off between high payment and relaxing weekend, the society with masculinity will choose high payment and the society with femininity will prefer relaxing weekend.

In this environment with masculinity cultures, people emphasis on acquisition of wealth or good performance. People are more result-driven. People live for working. They are lack of concern for quality of life. But in Femininity, people more emphasize on concern for others and harmony environment. People work for living. Thus, in the work places, masculinity society has more motivation on more wealth achievement, less motivation on caring about others. On the other hand, feminine society will provide a more comfortable environment for people to stay. People more care about each other. (Larsen, Rosenbloom, Anderson and Metha, 1999, p40; Barkema and Vermeulen, 1997; Wang, Lin, Chan and Shi, 2005)

Uncertainty avoidance

Society with strong uncertainty avoidance” feels more threatened by uncertain or ambiguous situations” (Larsen, Rosenbloom, Anderson & Metha, p.41,1999) therefore, people prefer explicit rules (e.g. about religion and food) and formal structures and they don’t tolerate unusual behaviour and ideas. (Larsen, Rosenbloom, Anderson & Metha, p41,1999) therefore, employees normally obey the rules and tend to stay longer with their present companies. However, this culture discourages “thinking out of the box” (Hofstede, 2005, p182) Clearly, they don’t innovative. In cultures with weak
uncertainty avoidance, people prefer implicit or flexible rules or guidelines. The people are “considered more as a matter of convenience than immutable law” (Hofstede, 1980, p47). People like to take the risk and to accept different ideas or arguments. They are more innovative. However, the Employees tend to change the companies more frequently. This kind of change brings a negative influence on stability of companies and efficiency of working process. Because when one employee resigned, the company must find another one to instead of him. The new employee needs enough time to adapt the new environment. That would have a negative effect on whole working process. (Larsen, Rosenbloom, Anderson & Metha, 1999; Barkema & Vermeulen, 1997; Wang, Lin, Chan & Shi, 2005)

Long/short –term orientation:

Society with long-term orientation is future-oriented. In this situation, employees consider further about the future of their career. The managers are more cautious about the future strategy of companies. In the society with short-term orientation, people expect quick result. They more focus on short-term interests/benefit. (Larsen, Rosenbloom, Anderson & Metha, 1999)

3.4 Summary

This chapter started with the definition of national culture. In turn, national culture differences were discussed according to Hofsted’s 5 culture dimensions. Finally, the
impacts of five culture dimensions on the companies in different countries were explained in details. These different influences can be a background to next chapter, which related national cultural differences to profitability of a joint venture.
Chapter 4 relationship between national culture differences and profitability of a joint venture

4.1 Introduction

In this chapter, I firstly talk over the importance of national culture in a joint venture briefly. The study then moves to both positive and negative impacts on profitability of a joint venture. The impacts will be discussed according to the differences among five culture dimensions.

4.2 Why is national culture important

Culture diversity plays a very important role in joint venture. As Das and Rahman (2009) mentioned, the firms among a joint venture have to work very closely to each other. This kind of closeness would disclose all kinds of critical cultural characteristics of each other. The various kinds of differences could be a serious problem, because they will threat the integrated work process through “poor communication”, misunderstanding, and “unnecessary provocations” (Glaister and Buckley, 1999, p.127).

As we all know, people are the core element in the companies. If the people in a joint
venture could cooperate closely, the chance to have a success business will be highly improved. Thus, to understand the national culture differences between each other is the first step to understand the “people”. For instance, that will be easier to communicate with each other, if one manage in local company has already know what are the interesting topic or what need to be avoided, according to the national culture of the manager from the foreign partner company.

To know and understand the differences of national cultures is also a good opportunity to choose a suitable partner for the companies. When the companies make clear the national culture differences among different countries, they will have a better idea of choosing the right type of partner companies.

**4.3 different impacts of national cultures on profitability of JV**

As discussed above, three determinants are mentioned. Two of them have the direct relationships with national culture differences. one is management structure and the other one is good communication and negotiation.( Partner selection is relevant to national cultural differences as well. Nevertheless, as mentioned in chapter 2, it also refer to financial aspect and strategy aspects).If the firms want to enter into a joint venture, they need to have an agreement on a uniform management style. However, it is not easy for employees in different countries to adapt a management structure which differ from their own. Good communication and negotiation has the same problem with national cultural differences. For example, in society with high power distance,
employees are used to listening to their managers or supervisors. When they disagree with their managers, they probably choose to follow managers’ decision. In this society, people cannot mutual communicate very well.

This section will emphasize the cultural dimensions that have direct influences on a dominant management structure (based on chapter 2, dominant management structure can be more successful) and good communication. These are power distance, individualism and masculinity. Although uncertainty avoidance and long-term orientation also have important impacts on a successful joint venture, they are normally discussed on financial aspect or strategic aspect, which are not included in this paper (Pothukuchi, Damanpour, Choi, Chen and Park, 2002).

As such, in terms of the three cultural dimensions, it is helpful to know which dimensions can bring positive influences on a dominant management structure and good communication and which could not do. If we know these influences from National cultural differences, it can partially benefit the joint venture.(a joint venture is also influenced by other factors)

Low power distance will hinder dominant management structure. Because equality is the norm of the society with low power distance, the people in this society are relatively active. They cannot just operate the decisions from their supervisor passively. However, in a dominant management structure, there is a dominant partner who is more powerful.
If the passive partner is from the culture with low power distance, there would be a conflict between dominant partner and passive partners. In contrast, if the passive partner is from the culture with high power distance, the partner would be easier to cooperate with. Thus low power distance brings negative influence on a dominant structure while high power distance brings positive influence on it. (Holtbrugge, 2004; Wang, Lin, Chan and Shi, 2005; Sirmon and Lane, 2004)

Furthermore, Hofstede (1985), Shernkar and Zeira (1992) believe that “having partners from both ‘feminine’ and ‘masculine’ cultures may even benefit the JV” (Barkema and Vermeulen, 1997, p.849) Because the aggressive attitude of one partner (from the society with higher masculine) cooperates with the other partner (that of lower masculine or feminine) may complement each other rather than conflict between them. This complementary between partners will bring the good communication and also change to a more harmonious work environment. That will also make dominant management structure sufficient in the workflow (Barkema and Vermeulen, 1997)

In addition, individualism can influence a dominant management structure negatively. Firstly, individualism places value on self-interest. However, in a joint venture, the firms should have the consensus to achieve the win-win situation. Otherwise, if the firms only focus on their own interest or profit, the probability of dissolution of a joint venture will be increased. Secondly, the partner who is from high individualism culture doesn’t follow others easily. The dominant management structure can be efficient based on the
cooperation between the partners. If the partner disagrees with the decision of the
dominant partner, the management/operation of a joint venture cannot execute
smoothly. Nevertheless, individualism does have a positive influence on good
communication and negotiation. People from individualism culture are more tolerant on
different ideas or arguments; it promotes the communication between partners. As
such, individualism culture will enhance the understanding and trust between partners.
In contrast, collectivism could benefit a dominant management structure, but it brings
negative impact on good communication and negotiation. People from collectivism do
not like changes. They may want to “preserve the present group structure and system
and prevent the incursion of alien influence” (Fisher and Ranasinghe, 2001, p.351)
( Barkema and Vermeulen,1997; Fisher and Ranasinghe, 2001).

4.4 Summary

This chapter were mainly discussed about the influences of national culture differences
on profitability of a joint venture. Firstly, the importance of national culture difference in
joint venture was explained briefly. Then it moved on to discuss both positive and
negative effects of national culture differences on the determinants of profitability of a
joint venture. Next chapter will answer the problem statement in this paper.
Chapter 5 positive influences of national cultural differences on profitability of joint ventures

5.1 Introduction

This chapter will answer the problem statement based on the studied in the chapters above. It will discuss about in which kinds of conditions, the three cultural dimensions can bring the positive influences on profitability of a joint venture.

5.2 positive impacts of national cultural differences

This section will give the answer to the problem statement “How can national cultural differences among participating companies of a joint venture positively influence on profitability of the joint venture?”

In this paper, we focus on two determinants of profitability of a joint venture. One is a dominant management structure, the other one is good communication and negotiation. 3 cultural dimensions have direct effects on these two determinants. They are power distance, individualism and masculinity. The positive relationship between the three cultural dimensions and two determinants will be explained deeply.

Actually, there are no absolute positive influences of national cultural differences on profitability of a joint venture, just like Pothukuchi (2002) et al. states, “which type of cultural distant will have a positive instead of a negative effect depends on the instrumentality of that cultural distance in terms of achieving a given objective” (p.260)
Therefore, let us discuss that in terms of a certain objective, which kinds of national cultural differences can bring positive influences to this objective.

Objective: dominant management structure

Positive influence: The dominant partner is from the society with masculine and individualism, and the passive partner is from the society with high-power distance and collectivism. The main reason is the dominant partner is result-driven and high aggressiveness of economic success. Their goal is pursuit of organizational successful. We can believe that the dominant partner can give a positive and proper indication to other partners in a joint venture for high profit. (Pothukuchi, Damanpour, Choi, Chen and Park, 2002) meanwhile, the passive partner gives enough support to the decision. They will execute efficiently and in an orderly way, because they focus on the group interest and they are used to following manager’s decision to achieve the goals. These two partners will cooperate easily and smoothly. Thus this cooperation can enhance the profitability of a joint venture partially. (Barkema and Vermeulen, 1997; Pothukuchi, Damanpour, Choi, Chen and Park, 2002)

Objective: good communication and negotiation:

Positive influence: one partner is from the society with individualism and low power distance. Other partner is from the society with feminine and collectivism. The partners in a joint venture need to open-minded and tolerant for good communication. One partner (from individualism and low power distance) would like to know new ideas and arguments. They must be open-minded. Shenkar and Zeira (1992) stated that “the differences in individualism stimulate more communication between the two parties,
which in turn lower perceptions of role ambiguity.” (Pothukuchi, Damanpour, Choi, Chen and Park, 2002, p.260) And the other one (from feminine) could care about others. They must be tolerant for others. We can believe that these two different cultures can be complementation for each other. (Fisher and Ranasinghe, 2000; Pothukuchi, Damanpour, Choi, Chen and Park, 2002)

5.3 Summary:

In sum, based on the studies of determinants of a successful joint venture and impacts of national cultural differences on a joint venture, we obtained that if the dominant partner is from the society with masculine and individualism, and the passive partner is from the society with high-power distance and collectivism, they can bring positive influence on a dominant management structure. In turn, if one partner is from the society with individualism and low power distance and one partner is from the society with feminine and collectivism, good communication can be positively influenced by them.
Chapter 6 Conclusion

This study is showed on a literature view. The first chapter gave an introduction to this thesis and described the problem indication. In this Chapter, the problem statement and the research questions were formulated as well as briefly discussed the research design and structure of this thesis. Chapter 2 started with the definitions of a joint venture based on the existing literatures. Chapter 2 then turned to describing the reasons for the firms to enter into a joint venture and differences of partners participating in a joint venture, which belong to the differences in cultural factor, are discussed afterwards. Finally, in this chapter, determinants of profitability of a joint venture are summarized based on empirical researches. Chapter 3 provides an overview on definitions of national culture. Then Hofstede’s five cultural dimensions are elaborate explained. Finally, the influences of national cultural differences on organizations in difference countries are discussed. Based on the outcomes of chapter three, chapter 4 described primarily the impacts of national cultural differences on profitability of a joint venture. Subsequently, in chapter 5, the problem statement is answered based on the studies in chapter four. The result shows us that in terms of one determinant “management structure”, if the dominant partner is from the society with masculine and individualism, and the passive partner is from the society with high-power distance and collectivism, a dominant management structure can be influenced positively by these national cultural differences. In turn, in terms of other determinant “good communication and negotiation”, if one partner is from the society with individualism and low power distance and one partner is from the society with feminine and collectivism, these national cultural differences can bring positive influences to this determinant.
This thesis has various limitations. The most prominent limitation is that this study only relies on literature review which implies no empirical research is showed to support my conclusion. Another important limitation of this thesis is that there are a small number of literatures that discussed positive influences of national cultural differences on profitability of a joint venture. Nevertheless, my conclusion is based on the researches, which are well-known and acknowledged in their field. Thus, my conclusion can be seen as valid and reliable.
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