

Determinants of Choice of Joint Venture Arrangements for International Marketers

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Abstract

This study investigated the determinants of the choice of joint venture arrangements for international marketers in Nigeria. The study aims at identifying the most significant influences on the choice of joint venture arrangements. The survey research design was used for the study. The study was carried out in South-east, Nigeria. A sample of 50 experienced international marketers was selected for the study using a snowball sampling technique. Data was gathered through the use of a structured questionnaire. The analysis was done using Principal Component Analysis. Findings reveal that brand name/equity, firm size, market attractiveness, research and development, as well as internationalization strategy are the most significant determinants of the choice of joint venture arrangements which international marketers in Nigeria adopt. The study recommends that prospective international marketers consider these factors before or when seeking an alliance with any foreign company an international markets.

Keywords: Joint Venture, Strategic Alliance, International Markets, International Marketers.

I. Introduction

As the doors to world markets become freely open to one another due to the waves of globalization, companies around the world markets increasingly move their operations from the domestic marketplace to international markets. Their choice of market entry mode has been one of the most critical elements of a firm's foreign investment strategy (Nakos and Brouthers, 2002; Kumar and Subramaniam, 1997). In conquering foreign market regulations and barriers, firms now choose to establish alliances with local companies (Guidice and Mero, 2007). They use this entry mode as their choice to access markets and resources worldwide. Such alliances can be defined as a medium and long-term agreement; it is between businesses, which entail the mutual transfer of intangible resources such as technology or human skills with or without the development of a reserved administrative structure (Oxley, 1997). Once companies decide to move internationally with a partner, they can either apply the equity form (joint ventures) or a non-equity form (non-equity alliances).

Various studies have tried to explore factors that could explain the choice of these firms seeking an international alliance. Alvarez (2003) for instance, proposes that a firm is likely to invest in a wholly-owned subsidiary if it (i.e., the firm) is sufficiently large, has had substantial experience in the host country geographical region and have good experience in the international sphere. This same author also gave a puzzling remark opining that joint venture may be chosen by a company if the possible host nation is perceived to imply a high level of instability and uncertainty or has a high rate of growth. The contention



here is that some regulations like the indigenization policy of Nigeria in 1971 which could be raised in host countries may defeat this Alvarez's(2003) proposition of joint venture arrangement (Ogbuagu, 1983). Meanwhile, some empirical evidence like Majocchi *et al.* (2010) avail that the host country institutional characteristics coupled with the cultural distance on alliance mode choice can be very erratic not to talk of the firm's specific characteristics which Alvarez (2003) advocates for. Despite the moderating probability of choosing joint venture forms which are conditioned upon firm-specific characteristics of the investment firm as well as country-specific characteristics of the country of investment, Agarwal (1994) insistently alludes that firms may choose joint venture forms overseas mainly when they are confronted with high socio-cultural distance. This paper, therefore, seeks to empirically address the determining factors for the choice of joint venture arrangements among international marketers in Nigeria when taking their businesses abroad.

1.1 Objective of the Study

The main goal of the study is to harness the determinants of the choice of joint venture arrangements for international marketers. The specific objective, therefore, is to ascertain the most significant factors for the choice of joint venture arrangements for international marketers in Nigeria.

2. Conceptualization

2.1 Joint Venture

For many decades ago, the concept of joint venture has been in use very increasingly. Apart from numerous books published on the subject, a significant number of articles have been written on the various aspects of joint ventures. Unfortunately, these research publications have not adopted a uniform definition to describe the term "Joint Venture". Some research authors define it as a cooperative enterprise entered into by two or more business entities for a particular project or other business activity (Kumar and Subramaniam, 1997). Often, a *joint venture* gives rise to a separate business entity, to which the owners contribute assets, have equity, and agree on how this entity may be managed. Another research author describes joint venture as a business enterprise embarked on by two or more individuals or organizations to share the expense and (expectedly) profit of a particular business project (Kayo *et al.*, 2010). Some research scholars advocate that a joint venture may not be necessarily a business enterprise regarding a proprietorship, partnership, or corporation; instead, it is an agreement between parties for a specific purpose and usually a defined timeframe (Hauswald and Hege, 2006). Joint ventures may be informal, such as a handshake and an agreement for two firms to share a booth at a trade show for instance. Other arrangements may be highly complex, such as a collection of significant electronics firms joining to produce new microchips for example. The primary element in a joint venture partnership is its single, definable objective (Agarwal, 1994). Joint ventures have increased in popularity in recent years despite the comparably high failure rate of efforts at building one consequent to one reason or the other.

Developing countries see joint ventures as one of the best instruments for meeting the competing interests of national development and the prevention of the domination of the economy by foreign investors (Sornarajah, 1992). Studies have also shown that in developing countries, joint venture investments have been more successful than foreign investments made through other means (Beamish 1988). For American based companies, cooperative arrangements such as joint ventures in developed countries outnumber wholly owned foreign subsidiaries by a margin of four to one (Contractor and Lorange, 1988). Killing (1983) found that Japanese and European firms preferred joint ventures as a mode of entry into developing countries than did American firms. This, however, changed in the second half of the eighties and the Americans are equally enthusiastic about forming joint ventures in the developing countries (Awadzi, 1987).

Given these preceding claims, it shows that there is a different kind of joint venture arrangements such as equity or non-equity alliance as some extant literature posit (Oxley, 1997; Luo, 2013). The former provides that the partnering firms have 50 – 50 ownership, but in the latter, it is a form of an acquisition or a wholly-owned subsidiary arrangement as the case may be. In either case, there is yet the need to address factors determining the choice of joint venture arrangements applicable to international marketers in Nigeria.

3. Theoretical Framework

The theoretical explanation for how firms choose their joint venture arrangements when taking their businesses to international markets has been viewed from diverse theoretical perspectives. Some existing studies explained it using Williamson's (1975) Transaction Cost Economics (Luo, 2013) while some use the Resource-Based View. However, some existing studies use the combination of both (Majocchi *et al.*, 2010; Alvarez, 2003). Some studies tackled it from the perspective of the Agency theory (McConnell and Servaes, 1995) and contingency approach (Agarwal, 1994) while Kayo *et al.* (2010) strongly support the learning view of the firm's choice showing that a firm's previous experience in a particular strategy (say – joint ventures) is significant enough to determine its future choice for the same strategy as a route to grow.

Now, in building a theoretical knowledge boundary for this current study, each or any of the above theoretical perspectives offer specific importance for explaining the choice of joint venture arrangements which international marketers in



Nigeria may adopt when taking their businesses abroad. Therefore, holding to only one or just any one of these theories may limit this study to the domain of understanding as proposed by the chosen theoretical perspective. In other words, since the various determinants of the choice of joint venture arrangements for international marketers are multidimensional, it is plausible to use the mix of these theories just as Majocchi *et al.* (2010) and Alvarez (2003) combined RBV with TCE.

4. Review of Empirical Studies

Quite some studies have been done in the past on determinants of choice of joint venture arrangements. For instance, Alvarez (2003) did a study directed toward investigating determining factors for choosing wholly-owned subsidiaries or Joint Ventures among Catalan Multinational Manufacturing companies. The goal of the study was primarily to investigate factors influencing the choice between establishing a wholly-owned subsidiary or entering into a joint venture (JV) as made by Catalan manufacturing firms investing abroad. Results show that a Catalan production company is more likely to set up a wholly-owned subsidiary if the enterprise is indisputably big, has had substantial experience in the host country geographical region, but is young and possesses small general experience in the international scene.

On the other hand, a Catalan company is more likely to invest through a wholly owned subsidiary (WOS) if the company owns intangible or tacit assets and functions within a technologically advanced sector. Finally, a joint venture is preferred by a Catalan firm if the potential host country is perceived to have a high level of instability and risk or has a high growth rate. Majocchi *et al.* (2010) also did a similar study but among Italian firms. These authors investigated the factors affecting the choice between joint ventures and non-equity alliances as Italian firms enter foreign markets. Their findings expose the important role played by firm size and by institutional and political features of host countries. The results concerning the role of functional activities involved and the industrial sector are mixed. The overall findings showed that it is necessary to develop a more integrated approach to understand this difficult choice made by firms when expanding abroad. Kayo *et al.* (2010) also made a study choice of joint ventures arrangements considering acquisitions, joint ventures, or arm's-length alliances choices. The study was carried out in Brazil. It analyses the determinants of choice among different firm growth strategies: acquisitions, joint ventures, or arm's-length alliances. Their findings support the learning perspective of the firm's choice showing that a firm's previous experience in a specific strategy (e.g., joint ventures) is significant to determine its future choice for the same strategy as a path to grow. Agarwal (1994) also did a study on U.S. firms investigating the effect of socio-cultural distance and the choice of joint ventures using the contingency perspective. To him, he believes that firms adopt joint venture arrangements internationally when faced with high socio-cultural distance. However, the probability of choosing the joint venture arrangement is expected to be influenced by the firm-specific characteristics of the investing firm as well as country-specific characteristics of the country of investment. This study examines the moderating role of some firm- and country-specific variables on a firm's preference for joint venture arrangement in response to socio-cultural distance. The firm-specific variables examined in this study include: size, multinationality and technological depth; and country-specific factors examined in the study include country risk and market potential. By using the data gathered from a sample of U.S. manufacturing firms, findings indicated the usefulness of the contingency approach for modeling choice of joint ventures.

Another essential previous related study is the work of Hauswald and Hege (2006) on ownership and control in joint ventures. By analyzing the determinants of ownership in US joint ventures, the study finds that the higher the potential for single value extraction, the more parents prefer equal shareholdings regardless of their attributes. Similarly, parent-specific spillovers make 50-50 ownership more attractive to the detriment of single control, whereas complementarities in parent resources have the opposite effect.

5. Observed Gaps in the Reviewed Literature

Of all the existing studies carried out in the past which were reviewed in the preceding section, very few or none is done in the context of Nigerian joint ventures, yet there is currently a growing number of strategic alliances between Nigerian companies and foreign investors especially from Asia like the Sino-Nigerian relations. The consequence of this is that there is a paucity of research works on joint ventures between Nigerian companies and foreign investors. Neither are there studies on determinants of choice of joint venture arrangements for Nigerian international marketers. Moreover, a good number of Nigerian businessmen and women are currently craving to make their businesses gain international presence sequel to the current export promotional policies of present government administration. In this regard, it becomes pertinent to replicate the existing studies in the Nigerian context to know which determining factors is the most significant determinant of the choice of joint venture arrangements international marketers in Nigeria adopt mostly.

Table I: Meta-Analysis of the Factors Determining Choice of Joint Venture Arrangements

Determinants of Choice of Joint Venture	Authors
Firm size (assets, sales, employees)	Kogut and Singh (1988), Makino and Neupert (2000), Brouthers and Brouthers (2001)



International Experience	Gatignon and Anderson (1988), Madhok (1998), Padmanabhan and Cho (1999)
Technological Advantages (Generally expenditure/sales) Also subjective perceptions such as asset specificity, asset tacitness,	R&D Gomes-Casseres (1990), Fagre and Wells (1982), Lecraw (1984)
Marketing and Product Differentiation Advantages (Generally Advertising expenditure/sales, also Perceived Importance of Product Quality or Brand	Erramilliet <i>et al.</i> , (1997), Agarwal and Ramaswami (1992), Pan and Tse (2000)
Socio-cultural Distance	Asiedu and Esfahani (2001), Pla (1999), Pan (1996)
Economic or Political risk (volatility of operating environment)	Kim and Hwang (1992), Madhok (1998)
Country size or growth (Generally an Attractive Market)	Hennart (1991), Makino and Neupert (2000), Brothers <i>et al.</i> (1996)
Firm resources, Host country characteristics, Industry sector, Internationalisation strategy, Activities of Value-chain	Majocchiet <i>et al.</i> , (2010)

Source: Researchers' Compilation

6. Methodology

Survey research design methodology was adopted for this study. The study was carried out in southeast Nigeria, specifically among Nigerian international marketers who also are exporters. A sample of 50 international markets was selected for this study across the five (5) southeastern states in Nigeria using a snowball sampling technique. The Nigerian Export Promotion Council in Enugu State was used as the starting point for identifying and selecting international marketers. A structured questionnaire was adopted for data collection in this study. The questionnaire was validated using content validity method and its reliability was ascertained using Cronbach's Alpha method of testing internal consistency. The questionnaire was confirmed reliable at 0.79 standardized Alpha using the Nunnally and Bernstein's (1964) benchmark threshold. Principal Component Analysis, which is a method of Factor Analysis, was used to test the hypothesis formulated for this study.

7. Results and Discussions

Out of the copies of a questionnaire administered in the survey conducted for this study, only 44 copies were completed. Six copies were not completed. Some of them were not returned, but in all, the copies returned provide success response rate of 88.0%. The demographic data of the respondents was presented here below.

Table 2: Respondents' Demographic Data

	Frequency	Percent		Frequency	Percent
<i>Gender Distribution</i>			<i>Years of Experience in International Business</i>		
Male	29	65.9%	< 5yrs	7	15.9%
Female	15	34.1%	5 – 9yrs	15	34.1%
Total	44	100.0%	10 – 14yrs	18	40.9%
			≥ 15yrs	4	9.1%
<i>Education Qualification</i>			Total	44	100.0%
FSLCert.	0	0.0%			
O'Level	2	4.5%	<i>Int'l Mkters Captured from Southeast</i>		
OND/NCE	13	29.5%	Abia	13	29.5%
BSc/HND	23	52.3%	Anambra	9	20.5%
Postgraduate	6	13.6%	Ebonyi	5	11.4%
Total	44	100.0%	Enugu	11	25.0%
			Imo	6	13.6%
			Total	44	100.0%

Source: Field Survey

The data presented through table 2 above represents the demographic data of the respondents. 13(29.5%) of them were captured from Abia state, 9(20.5%) were captured from Anambra state, 5(11.4%) from Ebonyi state, 11(25.0%) from Enugu state while 6(13.6%) others were captured from Imo state. As for their gender distribution, 29(65.9%) of them are males while 15(34.1%) others are females. The data on their education qualification shows that 2(4.5%) of them are holders of O'Level, 13(29.5%) are holders of OND/NCE, 23(52.3%) are holders of BSc/HND while 6(13.6%) others are holders of



Postgraduate degree. Considering the respondents' years of experience in international business, 7(15.9%) of them indicated that they are having < 5 years of experience, 15(34.1%) of them said they have 5 – 9 years' experience, 18(40.9%) agreed that they have 10 – 14 years' experience while the remaining 4(9.1%) others said they have \geq 15 years' experience.

The implication of the data gathered on 'years of experience in international business' is to know if the international marketers captured in the survey are the ones with good experience of making joint venture arrangements with foreign businesses. With the data gathered, it would be noted that the majority of them are actually with good experience.

7.1 Test of Hypothesis

To determine the most significant determining factors for the choice of joint venture arrangements for international marketers in Nigeria, the data gathered from the sample of international marketers are used. The data were subjected to test using Principal Component Analysis, which is a method of Factor Analysis. The test was run through SPSS version 17.0. The result of the test is presented here.

Table 3: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.687	20.666	20.666	2.687	20.666	20.666
2	2.312	17.785	38.451	2.312	17.785	38.451
3	1.901	14.621	53.073	1.901	14.621	53.073
4	1.445	11.116	64.189	1.445	11.116	64.189
5	1.111	8.547	72.736	1.111	8.547	72.736
6	.963	7.408	80.144			
7	.762	5.860	86.004			
8	.577	4.441	90.445			
9	.502	3.865	94.309			
10	.402	3.091	97.401			
11	.176	1.353	98.754			
12	.113	.870	99.624			
13	.049	.376	100.000			

Extraction Method: Principal Component Analysis.

Table 3 above presents the total variance explained by the components extracted. Out of the 13 components measured, five components were extracted. These components represent 72.736% total cumulative percentage.

Table 4: Component Matrix

	Component				
	1	2	3	4	5
Firm Size	.085	-.657	.582	.133	-.035
International Experience	-.357	.514	-.494	-.417	.027
Research & Development	-.263	-.074	.174	.634	.270
Asset Tacitness	.389	.028	-.651	.395	.130
Advertising Expenditure	.118	.599	.442	.214	.385
Product Quality	-.237	.613	-.343	.459	.070
Brand Name/Equity	.776	-.024	.027	-.183	.336
Socio-cultural Distance	.717	-.035	-.096	.262	.275
Economic or Political Risk	.750	.259	.131	-.368	.113
Market Attractiveness	-.077	.690	.551	-.231	.095
Firm Resources	-.427	.291	.399	.113	.076
Industry Sector	-.496	-.392	-.017	-.130	.546
Internationalization Strategy	-.385	-.301	-.245	-.345	.593

Extraction Method: Principal Component Analysis.

a. 5 components extracted.



The five (5) components extracted are specified in table 4 above. Using the factor loadings of each component, it would be noticed that the first component is loaded more on Brand Name/Equity, the second component is loaded more on Market Attractiveness, the third component is loaded more on Firm Size, the fourth component is loaded more on Research & Development while the fifth component is loaded more on Internationalization Strategy.

Based on this result, it shows that the most significant determinants of the choice of joint venture arrangements which international marketers in Nigeria agreed to are Brand Name/Equity, Market Attractiveness, Firm Size, Research & Development and lastly, Internationalization Strategy. These are consistent extant studies like Erramilli *et al.* (1997), Agarwal and Ramaswami (1992), Pan and Tse (2000) on Brand Name/Equity; Hennart (1991), Makino and Neupert (2000), Brothers *et al.* (1996) on Market Attractiveness; Kogut and Singh (1988), Makino and Neupert (2000), Brouthers and Brouthers (2001) on Firm Size; Gomes-Casseres (1990), Fagre and Wells (1982), Lecraw (1984) on Research & Development; and Majocchi *et al.* (2010) on internationalization strategy,

8. Conclusion and Recommendation

Determinants of the choice of joint venture arrangements are multidimensional. Firms that seek international presence do so with a specific goal to be achieved.. Therefore, it is ideal to conclude that the most significant determinants of the choice of joint venture arrangements for international marketers in Nigeria are marketing and product differentiation advantage (brand name/equity), firm size, market attractiveness, the technological advantage (research & development) and internationalization strategy. It is recommended that prospective international marketers consider these factors before or when seeking an alliance with any foreign company in international markets.

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