
The Impact of Acquisition of Local Knowledge by Foreign Partner on Bargaining Power of the Parties in Joint Ventures

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Abstract: *One of the concrete and important products of the global world is the joint ventures established between firms from different countries. It is, basically, aimed in this paper to explore the impact of change in the bargaining power of local and foreign partner after acquisition of local knowledge by the foreign partner in joint ventures. Then, the exploration will extend to discuss what kind of impacts these changes will have on stability or instability of such ventures. Taking the arguments on American and European organization and management theories' dominance and in some cases irrelevancy in other countries into account, basic goal of this paper's author is to form a theoretical framework for the empirical studies in Turkey.*

Key words: *Joint Venture, Local Knowledge, Bargaining Power, Foreign Partner*

Öz: *Global dünyanın somut ve önemli ürünlerinden birisi de farklı ülke şirketleri tarafından oluşturulan ortak girişim organizasyonlarıdır. Bu makale temel olarak ortak girişim organizasyonlarında, yerel konulardaki bilginin yabancı ortak tarafından edinilmesinden sonra yabancı ve yerel ortak arasındaki pazarlık gücü değişiminin etkisini keşfetmeye çalışmaktadır. Bu değişimin ortak girişimlerin uzun veya kısa ömürlü olması üzerindeki etkileri ise çalışmanın daha sonraki tartışma konusunu oluşturmaktadır. Amerika ve Avrupa kökenli organizasyon ve yönetim teorilerinin diğer ülkelerde egemen olması ve bazı durumlarda da uygun olmayan sonuçlara yol açtığına ilişkin tartışmaları dik-kate alarak teorik bir çerçeve oluşturmayı hedefleyen bu çalışmanın, özellikle Türkiye-deki uygulamalı çalışmalar için bir temel teşkil etmesi yazarının temel arzusudur.*

Anahtar sözcükler: *Ortak Girişim, Yerel Bilgi, Pazarlık Gücü, Yabancı Ortak*

1. INTRODUCTION

The basic motivation to write this paper was some arguments in the organization and management literature on American and European theories' dominance and, in some cases, irrelevancy in other countries. It is often argued in the organization and management literature that the focus of present studies on organizations is primarily American theories of organizational structure (Boyacıgiller and Adler, 1991; Donaldson, 1995; Usdiken, 1997; Usdiken and Pasadeos 1995). Most management schools and academic management journals are American. Boyacıgiller and Adler (1991) similarly revealed that "Americans have developed theories without being sufficiently aware of non-U.S. contexts, models, research, and values"(pp.263). American theories are so pretentious, which implicitly claim to be universally applicable.

While American theorizing is dominant in organization studies, Usdiken and Pasadeos (1995) reveal that there are two mainstream approaches: North America and Europe. "American organization theory operated with harmony-based assumptions, whereas Europeans were more concerned with conflict and power within organizations" (Usdiken and Pasadeos, 1995, pp.505). These different approaches cause a paradigmatic diversity in organizational analysis which reflects international differences between countries.

Last two decades has been witnessed increasing concern with the internationalization of organizational theorizing. It is stated that "Cross-culturally based research would facilitate theory development by suggesting additional variables as well as identifying such limiting conditions"(Boyacıgiller and Adler, 1991, pp.275). By the same token, aiming to be a country-specific research, this work is thought to be a tool to realize this aim. If this study helps Turkish practitioners and researchers to explore some limiting conditions of current theorizing and to encourage them to do empirical research on the subject, a partial satisfaction will be obtained by the author.

The fire of above mentioned concern with the internationalization of organizational theorizing was fueled by increasing global competition across nations. Over more than the past two decades the world economy experienced an unprecedented transformation and intensified global competition necessitated collaborative arrangements between firms from around the world (Glaister and Buckley, 1996; Tallman and Shenkar, 1994). The use of joint ventures (JVs) as a dominant collaborative arrangement form has increased during the same period (Sim and Ali, 1998; Tallman and Shenkar, 1994).

Joint venture (JV) formation is generally explained in terms of the market imperfections (Harrigan, 1984) and transaction cost economics (Hennart, 1988) models. However, such economic models do not explain interpersonal and organizational factors affecting the formation and stability of JVs. Tallman and Shenkar (1994) reveal that "selection of organizational forms and partners is not strictly economic, but also a social, psychological and emotional phenomenon" (pp.92).

Global competition highlights firms' asymmetric possession of skills (Reuer and Koza, 2000). Skills-based view of the firm sees firm-specific skills as core competencies (Hamel, 1991). These competencies include expertise in total quality control, just-in

time manufacturing systems, total customer service, flexible manufacturing system, technology, market knowledge, distribution systems, etc. In skills-based view, global competitiveness is seen as a function of the extent of knowledge accumulation and skill building. Collaboration is evaluated as an effective way to provide an opportunity for one partner to internalize the skills of the other, and thus improve its position both within and without the alliance (Badaracco, 1991, Crossan & Inkpen, 1995; Hamel, 1991; Kale, et al., 2000). According to Hamel's (1991) classification, for the partners, an alliance may be not only a means for trading access to each other's skills, which might be called as quasi internalization, but also a mechanism for actually acquiring a partner's skills-de facto internalization.

Being able to extract knowledge and skills through JVs may become vital to a company's survival. Since the creation of such alliances provides firms with an excellent learning opportunity, organizational learning literature will be examined to determine the impact of the foreign partner's knowledge acquisition on bargaining power of the JV partners. In the paper, learning is thought to be moderator variable in the relationship between acquisition of local knowledge and bargaining power. The main goal of this paper is to explore potential reactions of JV partners, especially the foreign partner, after the acquisition of local knowledge and the change in the bargaining power.

As methodology of the paper, at the first step, a detailed literature review will be given to state the subject on a more stable ground. Then, in the light of the literature review, propositions will be developed to provide a base for probable empirical studies by researchers. At the last step, an overall discussion will be made on the subject.

2. LITERATURE REVIEW

2.1 Defining Joint Ventures

According to Buckley and Ghauri's (1993) definition, operating JVs can simply be defined as partnerships by which two or more firms create an entity to carry out a productive economic activity. Byars (1991) defines a JV as "a separate corporate entity jointly owned by two or more parent organizations" (pp.519). JVs can be established for purposes of manufacturing arrangements, distribution arrangements, and research and development arrangements. Each party of the joint venture makes a contribution in the form of capital, technology, marketing experience, and personnel assets.

2.2 Reasons for Establishing Joint Ventures

Increasing need for global strategies have made the JVs a popular globalization tool for companies. Global strategies are those which recognize that competition can no longer be confined to a single nation's boundaries. Industries become global for many reasons, such as meeting challenges, gaining competitive advantages, and other reasons including economies of scale, technological innovation, and new sourcing arrangements as a

means of meeting global challenges. When the need for globalization arises, firms must reexamine their assumptions concerning how competitive advantage can be gained by integrating the operations in diverse geographic locations. In that case, firms may use JVs to coordinate their activities within a global system.

As a globalization tool, JVs have been quite popular in the business world because they give faster and easier access to local markets and distribution systems. In order to deal with the restrictions many countries impose on foreigners doing business in their countries, foreign companies form a JV with a local company. A JV with a partner abroad provides access to a distribution system together with a knowledge of local business practices, customs, and institutions. Especially in high risk projects, they help organizations share risk.

Even though JVs have been so popular until today, there are some criticisms about their stability. Inkpen and Beamish (1997) indicate that "Despite the surge in their popularity, international alliances are often described as inherently unstable organizational forms" (pp.177). Since alliances involve significant costs in terms of coordination and creating competitors, these costs make many alliances transitional rather than stable arrangements. Authors of several empirical studies of alliances have found instability rates close to 50% (Bleeke and Ernst, 1991).

2.3 Concept of Local Knowledge

To establish an operational presence in a country, a firm must access local knowledge as a means of overcoming market uncertainties. According to Beamish's (1988) indication, the two most important objectives of the foreign partner in a joint venture were to obtain country related knowledge and local management. JVs provide low-cost, fast access to new markets by borrowing a partner's already-in-place local infrastructure (Doz, et al., 1990). When a foreign firm does not have local knowledge, a JV can be used to gain quick access to a local partner's knowledge base. When a JV is formed, generally the foreign partner of the JV contributes technology and capital and the local partner contributes its knowledge about market intelligence, distribution channels, and so on.

Barkema, et al.(1996) indicate that "Firms that expand abroad are likely to acquire knowledge about foreign sites, including foreign culture, institutional characteristics, and other site specific knowledge" (pp.155). A similar point is indicated that "local presence increases a firm's access to knowledge... foreign firms use regional knowledge to a significantly greater extent" (Almedia, 1996, pp.157).

Local knowledge includes sales force, local plants, market intelligence, marketing presence necessary to understand and serve local markets, cultural traditions, norms, values, and institutional differences.

It is necessary to distinguish general knowledge from market specific knowledge. General knowledge concerns marketing methods and common characteristics of certain types of customers, irrespective of their geographic location, depending, for example, in the case of industrial customers, on similarities in the production process. Market

specific knowledge is knowledge about the characteristics of the specific national market-its business climate, cultural patterns, structure of the market system, and characteristics of the individual customer firms and their personnel (Buckley and Ghauri, 1993). Establishment and performance of a certain kind of operation or activity in a country require both general knowledge and market specific knowledge. General knowledge and market specific knowledge can be acquired by inter-partner learning and experience in the market.

2.4 International Aspects of Organizational Learning

To state the paper on a more stable ground, focusing on international aspects of organizational learning is thought to be very beneficial. Organizational learning is defined as "a process involving knowledge acquisition, information distribution, information interpretation, and organizational retention"(Schermerhorn, et al., 1995, pp.194). Out of these four constructs, knowledge acquisition has been given greater importance in the literature.

International competitiveness has been seen as a subject which depends on a firm's receptivity, efficiency, and absorptive capacity in organizational learning (Crossan and Inkpen, 1995; Osland and Yaprak, 1994). It has been thought that difficulty for firms to remain self-sufficient in an international business environment necessitates increased use of alliances. Inter partner learning within international strategic alliances has been an interesting subject for scholars in the last decade (Crossan and Inkpen, 1995; Cyr and Schneider, 1996; Dambrot, 1990; Hamel, 1991; Lei and Hitt, 1995; Lord and Ranft, 2000; Makhija and Ganesh, 1997; Osland and Yaprak, 1994). Even though, above theorizing specifies skills acquisition for strategic alliances in general, for the purpose of the paper, the theorizing will be employed for knowledge acquisition of JVs in particular.

2.5 Determinants of Bargaining Power

There are six determinants of bargaining power which are explained below:

Foreign Partner Bargaining Power Determined By
<ul style="list-style-type: none">• Benefist• Costs• Resources• Alternatives• Need• Barriers

Local Partner Bargaining Power Determined By
<ul style="list-style-type: none">• Benefist• Costs• Resources• Alternatives• Need• Barriers

2.5.1 Benefist of Joint Ventures

Parent firms embrace JVs because they are ways to implement changes in their strategic postures or to defend current strategic postures against forces too strong for one firm to withstand (Buckley and Ghauri, 1993). They allow each partner to concentrate their resources in those areas where they possess the greatest relative competence. It is not a completely correct assumption that a JV venture is a way to hide weaknesses. Rather, if they are used appropriately, JVs can create strengths. Frequently, the knowledge and assets firms seek can not be purchased. JVs offer firms a window on promising new technologies and manufacturing processes.

In short, JVs offer many internal, competitive, and strategic benefits. These benefits include resources, implementation of risky projects, and retention of their positions in a competitive environment.

2.5.2 Costs of Joint Ventures

JVs are not without risks. Governments place antitrust laws that prohibit joint activities to function like monopolies. It is required that firms show a pro-competitive design and an antitrust-sensitive explanation of the need for the JV. "Decisions regarding whether to license knowledge or form joint ventures cannot follow the traditional patterns of technology transfer if host governments (or local partners) exert substantial bargaining power" (Buckley and Ghauri, 1993). Choosing partners carefully, specifying reasons for forming a JV appropriately, and forming agreements and systems that will manage the venture adequately will determine the success of a JV.

2.5.3 Resources

By following postulates of Pfeffer and Salancik's resource dependence theory, if the stakes are referred as sources of context based bargaining power; it can be indicated that possession or control of critical resources constitutes power in interorganizational relations. The more critical resources a firm contributes to an organizational arrangement the more it will be powerful compared to its partner. In other words, the party that brings more critical resources to the venture gains more bargaining power.

2.5.4 Availability of Alternatives

Bargaining power refers to a bargainer's ability to favorably change the bargaining set, to win accommodations from the other party, and to influence the outcome of a negotiation (Yan and Gray, 1994).

Advocates of bargaining theory have proposed that the stakes of bargainers in a negotiation and the availability of alternatives influence their bargaining power (Bacharach and Lawler, 1984). A stake is a bargainer's level of dependence on a negotiating relationship and on its outcomes (Yan and Gray, 1994). Availability of alternatives determines dependence level of partners on each other.

2.5.5 Firms' Needs to Cooperate

Firms' strategic missions determine their need to cooperate with others. If a business is close to firms' technological cores, they will often be less willing to enter JVs in those businesses. The technological base of many firms is the essence of their corporate strategies and business purpose. Their unwillingness to bare their technological bases to partners who can not protect this knowledge adequately from technological bleed-through makes them want majority control, if not full ownership (Buckley and Ghauri, 1993).

2.5.6 Barriers

Barriers can be divided into two parts as internal and external barriers. Internal barriers include firms' unwillingness to see that their industries have become global. Uncertainties regarding firms' abilities to manage operating joint ventures may also erect barriers. Another barrier is that strategic costs are valued more highly than the benefits firms believe they can attain. External barriers include political restrictions on ownership, patent restrictions, and competitor retaliation.

2.6 Relationship Between Local Knowledge and Bargaining Power

Bargaining power at any point in time within a JV is a function of who needs whom the most. This, in turn, is a function of the perceived strategic importance of the JV to each partner of alternatives to collaboration depending on its bargaining power a partner will gain a greater or lesser share of the fruits of joint effort. "There is one determinant of relative bargaining power that is very much within the firm's control: its capacity to learn...Asymmetries in learning change relative bargaining power within the alliance: successful learning may make the original bargain obsolete and may, in extremis, lead to a pattern of unilateral, rather than, bilateral dependence" (Hamel, 1991, pp.100). Inkpen and Beamish (1997) stress the importance of learning that "Alliances also have been described as a race to learn, and the partner that learns the fastest dominates the relationship"(pp.177).

It can be postulated that there is a positive correlation between foreign partner's level of local knowledge and bargaining power (See Figure 1). In the paper, the proposition is that learning of local knowledge by foreign partner will lead to re-negotiation between partners of the JV. As a pre-assumption, it is assumed that acquisition of local knowledge is obtained after configuration of the JV.

		Level of Foreign Partner's Bargaining Power	
		Low	High
Level of Acquidrid Local Knowledge By Foreign Partner	Low	+	0
	High	0	+

Figure 1. Relationship between Bargaining Power and Local Knowledge of Foreign Partner

In above figure created by the author, (+) indicates positive correlation and (0) indicates no correlation.

Acquiring local knowledge will lower foreign partner's need for cooperation with the local partner because acquiring knowledge about the market that the JV operates in gives the foreign partner a relatively higher bargaining power against the local partner (See Figure 2). Over time, the dependence may change, and as a result, the bargaining power of one partner may be enhanced. When that happens, the JV partner with the increased bargaining power has access to more partners and options.

Components of Bargaining Power	Foreign Partner	Local Partner
Benefist	Higher	Moderately Lower
Costs	Moderately Lower	Moderately Higher
Need to cooperate	Lower	Moderately Higher
Alternatives	Higher	Moderately Lower
Resources	Higher	Lower
Barriers	Moderately Lower	Moderately Higher

Figure 2. Relative Bargaining Power of Partners after Acquisition of Local Knowledge by Foreign Partner of JV

Acquisition of local knowledge, such as sales force, market intelligence, and business climate, lowers foreign partner's dependency on local partner and makes it easier for the foreign partner to select from available alternatives. Having bargaining power will also enable the foreign partner to eliminate the internal barriers regarding its abilities to manage operating JV.

2.7 Reasons JVs Need to Enter a New Market

One of the reasons that a JV management will consider to enter a new market is the need to grow. After the JV's activities, if growth need is realized, managers of the JV will want to expand their activities to a new market. Another reason to enter a new market is saturation of the JV's local market. If the local market is saturated; JV's managers will desire to expand their activities in other countries to have more profit.

Increased competition in the local country can also be considered as one of the reasons to enter a new market. If the JV starts to face competition from local rivals by the time; the JV's managers will be willing to enter a new market to decrease the negative effects of competition.

It is explained before that after acquisition of local knowledge by foreign partner, foreign partner will have more bargaining power over local partner. This will result in higher market commitment of the foreign partner with or without the local partner because of its higher control on local knowledge. It can be proposed that:

P 1. *Acquisition of local knowledge by the foreign partner will lead to more market commitment of foreign partner with or without the local partner.*

Contrary to literature, I argue that acquisition of local knowledge by foreign partner will not immediately lead to instability of JVs. Because, especially, local partner's contribution of critical human resources makes foreign partner in a some degree dependent on the local partner even if the foreign partner gains more bargaining power by acquiring local knowledge.

Let us assume that the JV is in a need to enter a new market for investment because of increased competition in the local market and JV's growth as a result of its activities in the local market. When two partners of the JV, the foreign partner and the local partner, negotiate about entering new market, there are some important factors that play a significant role during the negotiating process: One of the concerns is which new market the JV partners consider entering. If they consider to enter a new market which is similar to the local market; JV's foreign partner will be more willing to enter the new market without the local partner if the local partner contributes to the JV only with local knowledge. If JV's local partner contributes to the JV with technology, critical human resources, and distribution channels besides local knowledge; the JV's foreign partner will go to a new market with the local partner because of its dependence on local partner in terms of human resources, technology, and distribution channels (See Figure 3 and Figure 4). By the same token, it can be proposed that:

	High Bargaining Power	
	Local Partner	Foreign Partner
Entry to a New Market with Local Partner	* High Local Knowledge * High Other Resources	* High Local Knowledge * High Other Resources
Entry to a New Market with Local Partner	* High Local Knowledge * High Other Resources	* High Local Knowledge * High Other Resources

Figure 3: Entry Decision to a New Market after Acquisition of Local Knowledge By Foreign Partner

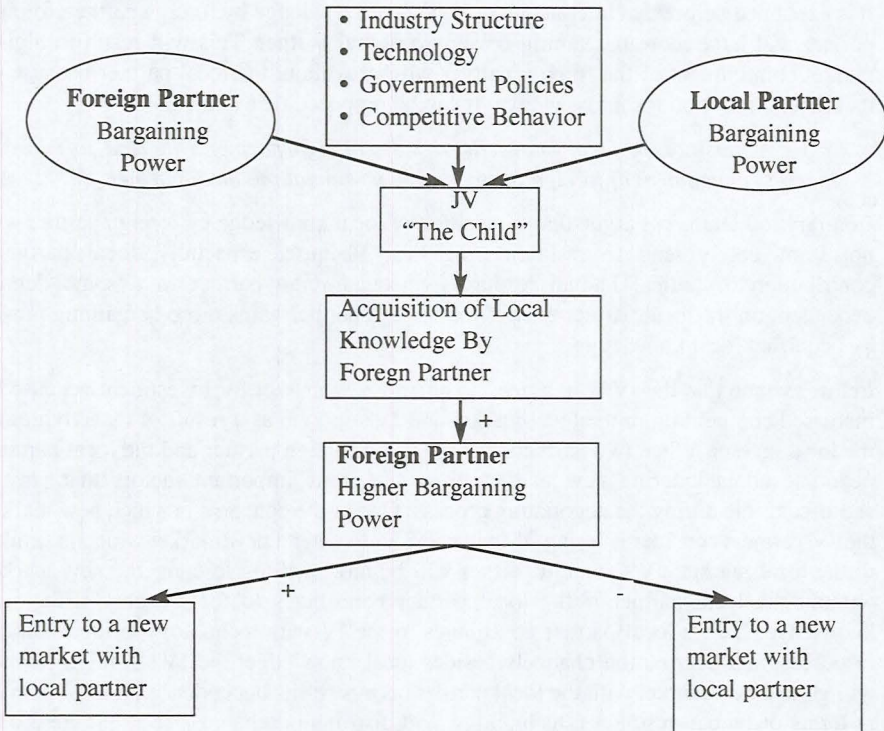


Figure 4. The Impact of Acquisition of Local Knowledge By Foreign Partner on Entry to a New Market with/without Local Partner

P. 2. *Depending on growth and competitive needs, foreign partner of a JV, after acquired local knowledge, will enter a new market which is similar to local market without local partner if local partner's contribution to JV is limited only with local knowledge.*

P. 3. *Depending on growth and competitive needs, foreign partner of a JV, after acquired local knowledge, will enter a new market which is similar to local market with local partner if local partner contributes to JV with other resources besides local knowledge.*

3. DISCUSSION

As a developing country, Turkey, is in the need to establish joint venture companies with other companies from other countries. While attraction of foreign companies to invest in Turkey is important, protecting the stability of established new entities is equally important. In the paper, stability of joint ventures is discussed in terms of the bargaining power change after the acquisition of local knowledge by the foreign partner in joint ventures.

As it is explained above, JV's foreign partner becomes able to negotiate with the local partner as a result of acquiring local knowledge. Acquiring local knowledge reduces foreign partner's dependence on local partner. More bargaining power gives the foreign partner more power during the re-negotiation process.

It is assumed in the paper that as a result of a JV's growth, strong competition in market, and saturation of market; the JV management will be willing to find another market to continue its activities in and protect itself from being harmed by the reasons which are given above. It is assumed that new market has similar characteristics with local partner, such as cultural similarity. When entering the new market by taking acquisition of local knowledge by foreign partner into account, the result is that the foreign partner will enter a new market with the local partner if the local partner's contribution to the JV is not limited with only local knowledge. It means that the foreign partner's dependence on the local partner continues in another way, such as need for critical human resources. It is again assumed that the foreign partner will enter a new market without the local partner if the local partner's contribution to the JV is limited only with local knowledge. Since foreign partner already replaced local knowledge by acquiring it, it means that its dependence on local partner is diminished.

Empirical studies which are conducted in Turkey on the subject would provide researchers and practitioners information on local conditions that determine stability or instability of joint ventures which are established between Turkish and foreign companies. Especially Turkish side of joint ventures would benefit from those studies' results by becoming aware shifts in the balance of bargaining power and taking necessary cautions before establishment of such partnerships and after collaborative arrangement is being alive. As the result, if a local partner would take steps to ensure that its role encompasses more than simply contributing local knowledge, then instability may be controllable.

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