**Bargaining Power For Local IJV Partners:**  
Local Knowledge and Skills

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**ABSTRACT**

The literature on bargaining power and instability of international joint ventures has proposed that instability occurs when a foreign partner learns local knowledge faster than a local partner learns technology and management expertise. However, this paper argues that the stickiness of local knowledge hinders a foreign partner from acquiring local knowledge, and this makes the foreign partner dependent on the local partner for dealing with issues in the local institutional environment. This gives the local partner the sustainable bargaining power which is positively related to stability of the international joint venture. Future research directions are discussed.

**INTRODUCTION**

The study of international joint venture (IJV) has received considerable theoretical and empirical attention in recent years, especially concerning the instability of IJVs, the bargaining power of IJV partners, and the acquisition of knowledge that partners acquire from each other. An IJV is a company established by two or more partner corporations, at least one of which is local and one of which is foreign. IJV instability is defined in two ways: first, as the termination of IJV through a change in the sponsors’ ownership structure; second, through reorganizations or nonstructural renegotiations (Yan, 1999). Both involve an unplanned change of IJV structure or ownership. 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, p. 1489). Local knowledge refers to knowledge about the local institutional environment, while foreign knowledge refers to knowledge of technology and management expertise. For the purpose of this paper, our examination of IJV bargaining power will be focused on IJVs resident in developing economies.

Literature has tended to claim that IJV instability lies in the shift in the bargaining power of the partners (Franko, 1971; Killing, 1983; Gomes-Casseres, 1987; Kogut, 1989; Bleeke and Ernst, 1991; Blodgett, 1992; Beamish, 1993; Lee and Beamish, 1995; Beamish and Killing, 1996; Inkpen, 1997; Park and Ungsn, 1997; Hennart, 1998; Hennart, 1999). The difference in the pace of learning is the main reason for the shift in the balance of bargaining power, which leads to instability (Inkpen, 1997). The difference in the pace of learning occurs because local knowledge (i.e., the knowledge owned by a local partner) is more easily acquired than foreign knowledge (technology and management expertise possessed by the foreign partner).

Previous literature cites two reasons to explain the difficulty for a local partner to acquire foreign knowledge: tacitness of knowledge and deliberate holdback of knowledge since it is regarded by the foreign partner as core competence (Simonin, 1999; Marcotte and Niosi, 2000). However, local knowledge is not extensively discussed. Local knowledge is knowledge of the local institutional environment. Institutional environment includes three components: regulatory, cognitive, and normative (Scott, 1995; Kostova, 1997). Meyer and Rowan (1977) argue that institutional rules function as myths that organizations incorporate to gain legitimacy, resources, and stability. “Myths” are even more difficult for foreign companies to understand. We would, therefore, argue that local knowledge is also tacit and sticky.

It is accepted in the literature that the knowledge possessed by each partner is an important source of their bargaining power (Inkpen, 1997). The partner that acquires knowledge faster will have increasingly more bargaining power. The imbalance of bargaining power is identified as a reason leading to IJV instability. In this paper, we argue that the stickiness of local knowledge makes it difficult for the foreign partner to acquire it, and the foreign partner will, therefore, be dependent on the local partner because of its local knowledge. The local partner can, therefore, maintain a
balance of bargaining power which improves the chances of the IJV stability.

This paper begins with a literature review on bargaining power related to learning in international joint ventures. The importance of local institutional context and the stickiness of local knowledge is presented as a gap in the “instability of IJV” literature. In the second section, a theoretical model is developed to demonstrate that the stickiness of local knowledge helps maintain IJV stability. The last sections present future research directions and a conclusion.

PREVIOUS RESEARCH ON LOCAL KNOWLEDGE AND INSTITUTIONAL PROFILES

The instability of IJVs has been examined in the literature of the past three decades (Franko, 1971; Killing, 1983; Gomes-Casseres, 1987; Kogut, 1989; Bleeeke and Ernst, 1991; Blodgett, 1992; Beamish, 1993; Lee and Beamish, 1995; Beamish and Killing, 1996; Inkpen, 1997; Park and Ungsn, 1997; Hennart, 1998; Hennart, 1999). The instability of IJVs has been attributed to several factors. The most conspicuous factors are changes in partners’ strategic missions, increases of competitive conflicts between the partners (Kogut, 1989), changes of the host country’s foreign investment climate (Blodgett, 1992), and prior relationships between partners (Blodgett, 1992).

More recently, Inkpen and Beamish (1997) argued that the explanations of IJV instability are incomplete because they indicate that instability comes only from outside an IJV. None suggests any satisfactory internal cause of IJV instability (Inkpen, 1997). Inkpen and Beamish theoretically claim that a shift in partner bargaining power is associated with the acquisition of knowledge and skills that allows a firm to eliminate partner dependency (Inkpen, 1997). Others provide similar arguments (see, for example, Hamel, 1991; Parkhe, 1991; Yan and Gray, 1994; Yan, 1998). Bargaining power comes from the resources that each partner possesses. The knowledge that each partner can contribute to the IJV is an important resource.

An IJV refers to a company established by two or more partners, at least one of which is local and one of which is foreign. At a general level, bargaining power within an IJV is based on the strategy of parent corporations, possessed resources, cooperation urgency, comparative advantage of partners, and each partner’s commitment. To some degree, an IJV is a space for each partner to gain knowledge from the other. However, the speed at which one partner learns from the other can vary, based on the characteristics of the knowledge itself. If one partner learns faster, that partner can erode the value of the knowledge contributed by the slow learner, breaking down the bargaining relationship between the partners.

The previous literature assumes that local knowledge is comparatively easier to acquire than foreign knowledge (Yan and Gray, 1994; Inkpen, 1997; Steensma, 2000). Local knowledge is referred to as knowledge about the local market, culture, and environment (Inkpen, 1997). Knowledge pooled in an IJV includes technology, management expertise, and local knowledge. The first two are provided by the foreign partner, while the last is provided by the local partner. Even if the local partner has full access to the foreign partner’s knowledge and skills, it is still more difficult for the local partner to acquire the other’s knowledge because there are tacit knowledge and skills embedded in the team that developed the technology (Simonin, 1999). Moreover, foreign partners tend to keep their core technology secret as a way to maintain bargaining power, making it all the more difficult for local partners to gain the whole technology (Marcotte and Niosi, 2000). On the other hand, local knowledge is about the market, the political and technical environment, regulations, culture, and materials. Local knowledge is assumed to be transferred between partners more easily than knowledge about technology or management expertise (Hamel, 1991). As early as 1960, Hymer stated that “national firms have the general advantage of better information about their country: its economy, its language, its law, and its politics. To a foreigner, the cost of acquiring this information may be considerable. But note that it is a fixed cost; once incurred by establishing a foreign operation, it need not be incurred again” (Hymer, 1976, p.34). This proposition was empirically supported by the study of an IJV in the United States with parent companies Toyota and General Motors (Sasaki, 1993). Toyota successfully acquired the local knowledge of General Motors, but General Motor did not fully acquire Toyota’s managerial expertise. As a result, the Japanese partner in the IJV acquired the necessary local knowledge to run a business autonomously and successfully in the United States. Understandably, such cases have strengthened the assumption that local knowledge is easily acquired. However, it is not clear whether the proposition holds across cultures.

In the literature, local knowledge comprises information and know-how about the local economy, politics, culture,
religion, ideology, and customs of a region; information about local consuming habits, and about the local labor force, distribution channels, infrastructure, raw materials, and other requisites for doing business in the region. Local knowledge also relates to cultural traditions, norms, values, and institutional differences (Makino and Delios, 1996; Inkpen, 1997). Cultural studies have shown that Asian cultures differ from Western cultures (Hofstede, 1980; Messick and Brewer, 1983; Schwartz, 1990; Trandsis, 1995). Hall (1977) points out that there are differences of context culture between Asian and Western cultures. In high-context cultures in Asian societies, “most of the information is either in the physical context or internalized in the person, while very little is in the coded, explicit, transmitted art of the message.” In low-context cultures in Western societies, “communication is just the opposite; i.e., the mass of the information is vested in the explicit code” (Hall, 1977, p.45). Therefore, it is conceivable that the acquisition of local knowledge in Asian countries can be difficult.

However, past literature has not precisely defined local knowledge or explained why a foreign partner can more easily acquire it than a local partner can learn the foreign partner’s technology and management expertise. It is taken for granted that local knowledge is easy for a foreign partner to learn. In fact, local knowledge is the knowledge of local institutional environment, or is (1) the understanding of local institutional profiles, (2) the knowledge of how institutional rules operate, and (3) the skills to deal with local institutions. We will review the literature of institutional theory to see whether the understanding of institutional environment is an easy process.

Institutional profiles have three components: regulatory, cognitive, and normative (Scott, 1995; Kostova, 1997). The regulatory component refers to laws, rules, and regulations which promote certain types of behaviors and restrict others. The cognitive component refers to cultures; specifically, it refers to cognitive structures and social knowledge shared by the people in a given country. They affect individual behavior because they shape the cognitive programs, i.e., schemas, frames, and inferential sets which people use when selecting and interpreting information (Markus and Zajonc, 1985). The normative component refers to social norms, values, beliefs, and assumptions about human nature and human behavior that are socially shared and are carried by individuals (Kostova, 1997).

Institutional environment requires organizations to conform to rules, norms, values, routines, shared behaviors, etc. “Institutional environments are, by definition, those characterized by the elaboration of rules and requirements to which individual organizations must conform if they are to receive support and legitimacy” (Scott and Meyer, 1991, p.340). Such rules are classified as reciprocated typifications or interpretations built into society, taken for granted or supported by public opinions or the force of law (Meyer and Rowan, 1977). They are rules, myths, and beliefs as shared social reality and the process by which organizations become instilled with value and social meaning (Baum and Oliver, 1991). Organizations gain a common understanding of what is appropriate and fundamentally meaningful behavior as a result of pressures exerted by various types of institutions (Zucker, 1983). Institutional contexts both prescribe and proscribe organizational alternatives (Hnings and Greenwood, 1988), and regulate organization behavior and course of action within a specific institutional environment. Institutionalized organizational actions follow intrinsically-valued, taken-for-granted, and “rule-like” patterns of organizational behavior. Those patterns conform to shared definitions of social reality and consensus among organizational actors on the meaning and legitimacy of particular activities and practices (Oliver, 1992).

Such rules, values, norms, routines, and shared behaviors distilled from cognitive structures or cultures are taken for granted. To understand them requires a strong local background and long practice. Tacitness of foreign technology and management expertise is specified in the literature of learning between parties within an international joint venture, but tacitness or ambiguity of local knowledge is ignored. As Makino (1996) pointed out, literatures have ignored the fact that “some local knowledge or resources” was very difficult for foreign partners to internalize through mere accumulation or experience in the host country. This local knowledge is so embedded and taken-for-granted by local partners that it is hard to transfer (Makino and Delios, 1996). Can foreign partners acquire local knowledge simply through time as the literature assumes? What will be the consequence if local knowledge is difficult to transfer? These issues are discussed in the following section.

THE EFFECT OF THE STICKINESS OF LOCAL KNOWLEDGE

Figure 1 provides a theoretical framework that shows how the stickiness of local knowledge is related to IJV
stability. This section describes how the stickiness of local knowledge is attributed to two factors: external institutional environment and internal structure in the context of an IJV in a developing economy. The stickiness of local knowledge results from knowledge ambiguity which makes knowledge hard to transfer (Szulanski, 1995). The structure of an IJV also has inherent problems that hinder the transfer of local knowledge. The foreign partner constantly depends on the local partner due to the stickiness of local knowledge, and this consolidates the local partner’s bargaining power and maintains IJV stability.

Fig. 1 The effect of stickiness of local knowledge on IJV stability

The Stickiness of Local Knowledge

Far from being easily transferred from the local to the foreign partner, local knowledge is ambiguous. Transferability of any knowledge depends on its codifiability or interpretability; the difficulty of codifying or interpreting knowledge determines its degree of ambiguity. Ambiguity makes local knowledge difficult to transfer; that is, it makes local knowledge sticky.

Local knowledge has three parts: understanding regulative institutions, normative systems, and cognitive institutions (Scott, 1995). The first, regulative institutions, imposes coercive pressures on organizations, has the power to establish rules, requires conformity, and imposes sanctions if necessary. Published rules, laws, and regulations, etc. are explicit. However, the process of enactment, which affects organizational behavior, may operate through diffuse, informal channels or folkways such as shaming or shunning activities. Formal laws and rules interact with informal mores in the environment that bring about force, fear, and expedience (Scott, 1995). Understanding the process and response to the process is largely based on local values and beliefs. Understanding and responses are fragmentary and impromptu, hard to be codified and conceptualized. Foreign partners may find it easy to learn the relevant laws, rules, and regulations, and to identify states, bureaucracies, regulators, and professional standards makers, but not easy to understand the mechanism of the enactment of rules or how to negotiate successfully with the regulative institutions. This knowledge or skill is critical to making efficient and effective responding strategies that directly affect performance. Ambiguity for this part of knowledge occurs because understanding of the enacting process is not easy for those with different values and beliefs.

The second, normative systems, includes values and norms that introduce prescriptive, evaluative, and obligatory dimensions into social life (Scott, 1995). Values are standards related to the questions of “what is desired or preferred” and “to what standard those that are desired or preferred will be compared and assessed.” Norms indicate what should and should not be done. Normative systems require actors to play a role and impose expectations and constraints to guide role behaviors. Normative frameworks develop over time and are established as archetypes. Organizations that
conform to them gain legitimacy. To win privileges, rights, and license, they must know clearly their responsibilities, duties, and mandates. Normative rules and norms are not published, but are interpreted by actors. Frequently, more than one rule is applied to deal with a situation. This part of local knowledge is not easily codified because normative rules such as routines, procedures, conventions, roles, beliefs, paradigms, codes, and taboos are embedded in the social context. Hence this part of local knowledge is not easy to transfer.

The third part of local knowledge is understanding the cognitive component. This is related to the rules that constitute the nature of reality and the frames through which meaning is made (Scott, 1995). These rules involve the creation of culture, symbols (works, signs, and gestures), meanings, and processes. These meanings are applied to matters, to ideas, and to actors. Such processes may be visible in actions or interactions but are not limited to them because they are embedded in the social structure, fundamental to social life. They are so taken for granted that they are often overlooked (Scott, 1995). All actors performing on the social stage with various actions, aptitudes, opinions, feelings, etc. are perceived as natural in their behaviors or responses. All of the actors are components of social constructions and immersed in social cognitive frameworks. There are cognitive scripts serving as guidelines for sense-making and choosing meaningful actions (Lord and Kernan, 1987), a mechanism that Dimaggio and Powell (1983) emphasized as mimetic processes. Those cultural rules, meanings, or processes are so hidden and implicit in social structure that actors just “follow the way they do these things.” Knowledge about the cognitive component is also ambiguous.

In the learning or transferring process, ambiguity restricts clear communication, making the transfer and interpretation of knowledge a difficult process. If the codification of knowledge is difficult and incomplete, the process of acquisition of knowledge is as fragmentary as “blind men exploring an elephant.” Only odds and ends are picked up during the process. Interpretation based on such acquisition is often misguided and not a true reflection of what is going on. Local knowledge, because it is ambiguous, is sticky in the foreign partner’s learning process.

**Proposition 1:** The harder it is to codify local knowledge, the more difficult it is to understand, and the more sticky it is to transfer.

In addition to ambiguity, there are structural reasons which are responsible for the stickiness of local knowledge. The isomorphism pressure from the foreign parent company tends to make the foreign partner ignore the importance of local knowledge. The lack of structural cohesion is another hindrance to the transfer of local knowledge.

Recently, institutional theory has been extended to include the institutional influence from within. Business units operating within their parent organization’s network are subject to internal institutional pressures. A foreign partner is subject to the pressure of isomorphism to its parent’s norms (Kostova, 1999). In the meantime, local institutions also impose their pressures on the IJV. Whether it succumbs to internal or external institutional pressures depends on who takes control of the IJV. When the foreign parent corporation takes increasing control, internal institutional pressures of isomorphism override the external ones. When a foreign partner is from a more developed economy, normally the foreign parent takes strategic control. On the other hand, when strategic control is vested within the IJV, internal pressure of isomorphism will give way to local external pressure. However, this situation seldom occurs unless there are strategic reasons. IJVs always seek parent isomorphism due to the high degree of interdependency and resource sharing that occurs within the network. Increasingly, foreign partners try to take control of IJVs, make IJVs become isomorphic to foreign parent organizations (Davis, 2000), and pay less attention to local institutional pressures. In such cases, the foreign partner won’t commit itself to learning local knowledge even though it considers local knowledge important.

**Proposition 2:** The more an international joint venture is subject to internal pressure of isomorphism to the foreign parent company, the less the foreign partner commits itself to learning local knowledge.

Lack of structural cohesion hinders the transfer of local knowledge for several reasons. First, structural cohesion refers to a high degree of cooperation for a consensus goal. Previous literature on bargaining power of partners of IJVs tends to believe that local knowledge “once internalized (in an IJV), have the characteristics of a public good…and can be transferred at zero marginal cost to the firm” (Makino and Delios, 1996). The assumption is that the information flow among departments is a smooth process and cooperation among departments is spontaneous when knowledge transfer involves several departments. But, such is rarely the case because organizations are coalitions of different members or
departments with different goals and interests. Each department strives for scarce resources. Conflicts among departments are inevitable (Anderson, 1982). Especially in IJVs, departments from different parents stand for each parent’s interests and goals (Beamish, 1985). Full cooperation and commitment among those departments when learning or transferring knowledge are only unilateral anticipation. From the resource-dependence point of view, the partner who contributes the dominant share of resources to a functional area of the IJV can earn the right to manage this area. When two partners contribute expertise in highly differentiated areas, a split control structure can be expected (Killing, 1982). In an IJV, a local partner normally takes responsibility for marketing and deals with local institutions while the foreign partner is mainly responsible for such things as research and development, and production. The division of responsibility sets up an intangible partition between a local partner and a foreign partner, making it harder to transfer knowledge freely between them. Nevertheless, differences in language, culture, and management approaches are also obstacles to full cooperation between the two parties. In a nutshell, it is less likely that knowledge can be transferred freely between the two partners because of the lack of structural cohesion which leads to the stickiness of local knowledge transfer.

**Proposition 3:** The stickiness of local knowledge transfer is also the consequence of lack of structural cohesion in an international joint venture.

**The Foreign Partner’s Dependence on the Local Partner**

We argue thus far that local knowledge ambiguity based on institutional understandings and structural hindrances tends to generate the stickiness of local knowledge. This stickiness, in turn, increases the foreign partner’s dependence on the local partner. According to dependence theory, one party becomes dependent on another because it (1) does not have some important resources; (2) it is not able to acquire such resources easily; and (3) it does not have alternative resources. It must depend on another party that holds the important resources (Pfeffer and Salancik, 1978). Specifically, Pfeffer and Salancik point out that an organization greatly in need of specialized knowledge, if that knowledge is scarce and few alternative sources, will be heavily dependent on organizations that possess this knowledge (pp. 45-6).

The stickiness of local knowledge hinders a foreign partner from fully understanding local institutional rules, norms, values, and culture. Nevertheless, skills to deal with local institutions are local-specific or cultural-specific and may not be acquired through accumulation of experience. Furthermore, the local partner’s knowledge and skills are irreplaceable, including, for example, its capability to “negotiate with local government; its access to and skills in negotiating with local elite; its ability to manage the local labor force and unions; and its competence with respect to local market access, product quality, branding, market reputation, and so forth” (Makino and Delios, 1996). Due to the local partner’s local knowledge, its local skills, and its social capital, the IJV operates in the host country at no extra cost than other local companies. The foreign partner depends on the local partner to overcome liabilities of foreignness.

**Proposition 4:** The stickiness of local knowledge that prevents a foreign partner from acquiring local knowledge and skills is the reason that a foreign partner depends on a local partner.

From the foreign partner’s perspective and considering the issue of transaction cost, it is the local partner that is internalized by the foreign partner to reduce the problems of opportunism and uncertainty in the host country. The stickiness of local knowledge aggravates the problem of opportunism and uncertainty. Through special social connections, the local partner may have inside information to circumvent heavy-costing regulations. By understanding local values and norms, the local partner can avoid conflicts with consumers or labor unions, and knows how to keep away from taboos or transaction snares. Local knowledge about how to acquire social capital and keep consistent with social norms is a critical asset for the local partner. Social capital is a strategic resource that the local partner holds by cultivating “linkages to institutional constituents (e.g., nurturing personal business connections, building relations to reputable public groups)” and is difficult for the foreign partner to imitate (Oliver, 1996). The IJV economizes on the social capital to lower transaction costs because social capital helps win trustworthiness and reliability from other institutional constituents.
Proposition 5: The local partner’s knowledge embedded in social capital and local norms increases the foreign partner’s dependence on the local partner to reduce the transaction costs due to opportunism and uncertainty.

Isomorphism to foreign parents raises the problem of non-conformity to local institutional rules. The local partners use their local resources to buffer an IJV’s structure and management style from the external institutional environment. An IJV with the foreign parent from a developed economy and the local partner in a less developed economy especially needs buffering to bring stability to its existence. Such IJVs will take the foreign parent’s management style and copy the foreign parent’s structure simply because the management style and structure are believed to be more advanced. The problem is that the structure and the management style may not be consistent with the local institutional environment.

To avoid direct conflict with the institutional environment, the local partner will try to establish a buffer between the internal structure and external environment. The local partner may form an ad hoc public-relations team to deal with institutions, using linkages to seek acceptance into associations, immunizing interference from institutional constituents by emphasizing external conformity, negotiating with regulators for special policies, leading public opinions by advertising translated ideas, addressing similarity and concealing disparity through propaganda, coordinating with professional institutions to make new standards, and attracting other organizations to imitate their structure thus actively winning legitimacy. As a result, the buffering tactic can not only convey the IJV’s policy of isomorphism to its foreign parent, but also can maneuver in order to meet the local institutional requirement of structurally conforming to the local environment.

Proposition 6: The greater the need for local partners to establish legitimating buffers that increase isomorphism between the parent and the local environment, the greater the foreign partner’s dependence on the local partner.

Bargaining Power and Stability

Having discussed the issue of the foreign partner’s dependence on the local partner, we move to the issue of bargaining power and stability. The bargaining power that the foreign partner holds because of its knowledge of advanced technology and management expertise is offset by the bargaining power held by the local partner because of its local knowledge. This creates a dependency of the foreign partner on the local partner so that there is now inter-dependency, and the balanced bargaining power that results will help maintain IJV stability.

The foreign partner’s dependence on the local partner for local resources will increase the local partner’s bargaining power. “Bargaining power refers to a bargainer’s ability to change favorably the bargaining set to win accommodations from the other party, and to influence the outcome of a negotiation” (Yan and Gray, 1994). A bargainer, to have bargaining power, must (1) have important resources that its counterpart does not have right now, (2) still hold the resources in the perceived future while the counterpart is not able to acquire the resources or alternative ones, and (3) have the resources regarded as important and indispensable both at the current time and in the future. The first condition means that the resources each partner holds are asymmetrical. Bargaining power mainly comes from partners’ resources contributions (Harrigan and Newman, 1990). In the context of IJVs, partners depend on each other because they hold complementary resources. The more special the resources partner A holds, the more dependence partner B will have on partner A; the more bargaining power partner A will have over partner B. Where the local partner possesses the resource of local knowledge, the foreign partner depends on the local partner because local knowledge is special to the foreign partner. The local partner gains bargaining power. The second condition means that the more durable partner A’s special resources are, and the more durably inaccessible the resources are to partner B, the more dependent partner B will be on partner A; the more bargaining power partner A gains. The durableness of the resource for the local partner and inaccessibility to the foreign partner are ascribed to the stickiness of local knowledge, leading to the foreign partner’s dependence and the local partner’s acquisition of bargaining power. The third condition requires that the resources that win bargaining power for the holder should be critical to the other party. The more important the resources that partner A holds, the more partner B will depend on partner A, and the more bargaining power partner A gains. The importance of local knowledge is consistent with the requirement of the third condition. We propose the following based on the
above discussion.

Proposition 7: The more special, sticky, and important local knowledge is, the more likely the foreign partner will depend on the local partner, and the more bargaining power the local partner will gain.

With more bargaining power for the local partner, an international joint venture will be more stable. Researchers have provided convincing evidence that balance of bargaining power is the most critical base of stability of an international joint venture (Inkpen, 1997; Yan, 1998). It is true that the foreign partner has the advantage of possessing advanced technology, sophisticated management expertise, and greater financial resources. This is why the foreign partner has apparent bargaining power versus the local partner. However, as we have argued, the stickiness of local knowledge is positively related to IJV stability.

We use the metaphor of a weigh scale to explain IJV stability, considering bargaining power. There are two ways to make the scales unstable: put more weight on one side relative to the other, or take weight away from one side relative to the other. For the foreign partner, investing more money for improved technology increases the weight on their side of the scale and increases their bargaining power. The local partner can develop more knowledge and skills to deal with the dynamically changing institutional environment to gain more local resources. This will add weight to their side of the scale and counteract the foreign partner’s increased weight, returning the scale to balance. As either party learns from the other, it can reduce the weight that the other party has on the scale, thereby decreasing the bargaining power of the other party. More specifically, the more the foreign partner acquires local knowledge, the less the foreign partner depends on the local partner, and the lower the local partner’s bargaining power will be. However, the stickiness of local knowledge makes this alternative less attractive for the foreign partner than adding weight to its own side.

First, the stickiness of local knowledge leads to inimitability of local skills, making the foreign partner depend on the local partner to acquire local resources using local knowledge. This makes the local partner’s bargaining power sustainable over time. Nevertheless, the local partner does not stop developing local knowledge, local skills, and social capital, and this ensures that the local partner is able to provide continuous contributions to the international joint venture. Second, the foreign partner keeps inputting the resources (i.e., technology or management expertise), maintaining bargaining power. At the same time, the foreign partner will increasingly show more respect for local resources held by the local partner as the IJV continues, and will attach more importance to the local partner’s bargaining power. Thus, a balance continues between their bargaining powers, increasing IJV stability.

Proposition 8: Given the foreign partner’s bargaining power from the possession of advanced technology and management expertise, the more the local partner maintains or increases its bargaining power, the more likely a balance will be kept between the bargaining powers of the two parties, and the more stable the IJV will be.

FUTURE RESEARCH

We have discussed theoretically the effect of the stickiness of local knowledge as a source of IJV stability. Future research can begin with empirically investigating it in a developing economy such as China. One approach might be field interviews or questionnaires that ask CEOs and managers of current IJVs their perspectives on stability, using the technique of factor analysis to find the factors of stability. Another approach might be an investigation of current IJVs and wholly-owned subsidiaries of multinational corporations to compare their performance to see whether the stickiness of local knowledge plays an important role in bargaining power.

Another direction of future research could be an empirical investigation of IJV stability in various industries. The degree of IJV stability varies in different industries. Stability is related to the learning speed of the two parties and learning speed is related to characteristics of the knowledge to be learned. For example, a foreign partner may have stronger bargaining power when the IJV is in high technology industries than when the IJV is in a pure trade industry. This is because of the different degree of the stickiness of foreign knowledge. This research direction is important since it can shed more light on whether the stickiness of local or foreign knowledge plays an important role in the stability of international joint ventures.

The third direction of future research could be on how to quantify the cost of knowledge transfer so that we can understand the cost of bargaining power. The cost of technology may be more easily determined based on licensing fee, but local knowledge is not clearly categorize and may be more difficult to cost.

The fourth direction of future research on IJV stability could be empirical investigation in other contexts as the
density of the institutional environment will differ across contexts. For example, culture plays a very important role in the institutional environment. Generally there are two types of cultures, high-context and low-context. In a high-context culture, many rules govern individual action or behaviors. Rules are not published but are understood by individuals with the help of mentors, parents, or teachers. Individuals are expected to conform to rules or are discouraged and condemned if rules are violated. In low-context cultures, rules or norms are transmitted or expressed through a wide range of alternative channels; violations are widely tolerated (Pelto, 1968). Generally, Western countries such as the United States, Canada, and many European countries are regarded as low-context cultures whereas Eastern countries such as Japan, China, and South Korea are regarded as high-context culture. Local knowledge can be more easily learned in low-context cultures.

Other future research could investigate other factors such as trust and structural inertia that affect stability independent of bargaining power. Trust between partners enhances cooperation. Close cooperation improves performance. Good performance will enhance IJV stability. An IJV may also develop structural inertia that makes it ignore temporary imbalances of bargaining power, thus promoting stability.

CONCLUSION

This paper is built on previous literature and extends the literature in the sense that acquisition of local knowledge was viewed as just a question of time and that the foreign partner of an international joint venture will have more bargaining power because the foreign partner learns faster than the local partner. It has attempted to modify the theory of previous literature based on the assumption that local knowledge can be acquired easily. The propositions developed in this paper are that the stickiness of local knowledge helps maintain the local partner’s bargaining power which will counteract the foreign partner’s bargaining power, and help maintain IJV stability.

The contribution of this paper is the notion that not only foreign knowledge has the characteristic of stickiness, as described in the literature (Inkpen, 1997), local knowledge has it also. However, the contribution is limited: It does not explicate the strength of the relationship between bargaining power and local knowledge; it does not measure quantitatively whether the local bargaining power related to local knowledge can match the foreign bargaining power related to technology and management expertise. Finally, it does not attempt to generalize this theory to other contexts or argue whether the theory will still hold if generalized to other contexts.

REFERENCES


