Chapter 9

Optimizing International Joint Venture (IJV) Ownership Structures: A Technology and Knowledge Transfer–Linked Productivity Growth Perspective

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ABSTRACT

This chapter portrays a quantitative framework regarding entry mode choice and ownership structures by measuring performance under given ownership structures as the degree of efficiency in technology transfer, and knowledge exchange in the form of a residual productivity growth variable. This method has been shown to be a proxy for or an indirect measure of transaction costs, in that ownership structures are validated by the growth in technology/knowledge-based productivity that they caused. In the process, the chapter discusses hierarchical entry modes and adjustment of ownership structures with respect to minimizing transaction costs incurred in the transfer and internalization of complementary assets, both tangible and intangible. Previous research has dealt with subsidiary performance mainly in terms of financial measures (e.g., profitability, ROA, ROE, ROI), instability, and lifespan. By contrast, this chapter extends existing research by providing a specific quantitative framework for optimizing technology/knowledge-based productivity growth. The second important contribution of the chapter is the linkage of the quantitative results to their applicability and potential for implementation in Japanese equity-based subsidiaries in Latin America over the lifetime of the subsidiaries. Other factors important in the implementation and internalization of new technologies and knowledge have also been analyzed quantitatively and linked to case studies qualitatively. The chapter further analyzes adaptations to regional

DOI: 10.4018/978-1-4666-3966-9.ch009
PRODUCTIVITY AND OWNERSHIP

Several studies have already considered ownership and its effects on technology-based productivity in more detail. For instance, Blomstrom and Sjoholm (1999) have found majority ownership allows the subsidiary to receive more sophisticated technologies from the parent firm. However, Jefferson et al. (2000) has suggested minority ownership allows the local partner greater contact with technologies, and therefore helps technology diffusion, barring large technological or knowledge gaps. Similarly, Dougherty and Guckin (2001) highlight that value-added activities in Chinese Standards of Excellence (SOEs) tend to rise when partnering with a foreign firm due to technology and knowledge spillovers, which therefore raises the overall technology-induced productivity for the IJV. However, their study is conceptual and not nationality-specific. I will first review those studies which treated the issue of ownership and technology-based productivity.

Blomstrom and Sjoholm (1999) approach the problem of productivity growth from the perspective of technological spillover effects by Multinational Corporations (MNCs) entering a foreign market where their market entrance distorts the existing local market equilibrium. Local companies are then forced to react to protect their market share. Nonetheless, the authors argue these effects have had a positive influence on local firms with respect to absorption of new technologies. Where technological gaps were too large, however, the authors found a moderating effect on productivity because of the “limited scope for learning” by the local partner.

Their study leaves several issues unanswered. First, they only present statistical proof that productivity is compromised due to the local part-
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