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## INSTITUTIONAL ENVIRONMENTS IN THE FORMATION OF INTERNATIONAL JOINT VENTURES: A BRAZILIAN CASE STUDY

**Fernando Dias Lopes**

UFRN

**Stewart Clegg**

University of Technology, Sydney, Australia

**Marcelo Milano Falcão Vieira**

EBAPE/FGV

**Siggi Gudergan**

University of Technology, Sydney, Australia

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## Resumo

A pesquisa foi conduzida numa joint venture internacional formada entre uma empresa brasileira e uma espanhola, localizada no Brasil, operando na indústria de cosméticos. Os CEOs de ambas empresas foram entrevistados. As entrevistas ocorreram em agosto de 2001 e maio de 2003 acompanhando a evolução do fenômeno pesquisado. Todas as entrevistas foram transcritas e a análise de conteúdo foi utilizada para desvendar temas teóricos que estruturavam os discursos de acordo ao modelo de pesquisa desenvolvido com base numa extensiva revisão da literatura. O modelo munuiu a pesquisa de uma estrutura para traçar elementos teóricos diversos no desenvolvimento da joint venture. Em termos da compreensão de diferentes racionalidades dispostas pelos diferentes parceiros em seus discursos, foram desenvolvidas etapas dos dois países que possibilitaram um melhor mecanismo de interpretação. Teoricamente, aspectos da Teorias de Custo de Transação, da Teoria Institucional e da Dependência de Recursos puderam ser analisadas, em termos de racionalidades moldando os discursos, configurando as formas de decisão da joint venture. Com respeito às práticas, essas teorias devem ser consideradas como complementares em vez de caminhos alternativos para moldar o mundo: cada uma representa um elemento do trabalho discursivo que compõe a constituição da joint venture.

**Palavras-chave:** Teoria institucional. Teoria dos Custos de Transação. Dependência de Recursos

## Abstract

The research was conducted in an international joint venture (IJV) formed between a Brazilian and Spanish Company, located in Brazil, which operates in the cosmetics industry. CEOs from both parent companies were interviewed. The interviews occurred at two points – August 2001 and May 2003 – and sought to capture the evolution of the phenomena being researched. All the interviews were transcribed and content analysis was used to uncover the theoretical themes that underpinned or framed their discourse, according to a research model developed on the basis of an extensive literature review. The model provided a frame with which to trace diverse theoretical elements in the development of the venture. In terms of understanding the different rationalities deployed by the different partners in their discourse, it was the development stage of the two countries that provided the best interpretive device. Theoretically, aspects of Transaction Cost Economics, Institutional Theory, and Resource Dependence could all be seen, in terms of the rationalities shaping the discourses, to underlie the decision to form the IJV. In respect to practice, these theories should be regarded as complementary rather than alternative ways of framing the world: each represents an element of the discursive work that went into the constitution of the IJV.

**Keywords:** Institutional theory. Transaction cost economics. Resource dependence.

## Introduction

Increasingly, firms are regarded "as placed within a network of inter-organizational relationships that are crucial to their success and survival" (Gulati, 1995, p. 619). Analytic focus has shifted from the firm to the network of relations in which it is embedded. Research concerning internationalisation in the 1990s demonstrated that strategic alliances were one of the dominant organizational forms for success in competitive environments (Child; Faulkner, 1998; Rodrigues, 1999). For as long as strategic relations were conceptualized as being between essentially similar organizational entities they posed a problem only of *focus* and *extension* for analysis: shifting the focus from the focal organization to the alliances that it entered into and extending it to incorporate suppliers and other up and down stream organizations, all of which could be assumed to be essentially 'economically rational' actors. These assumptions might work well when the alliances are formed between similar corporate entities from the same country, or ones that are very similar. However, what happens when the alliance is between organizations from developing and developed countries? Does the level of development of institutions and practices shape the nature of the alliance in determinate ways? It is these research questions that the paper will explore.

To understand inter-organizational relationships between organizations in countries with different cultures and at different stages of development one needs to understand the effects of economic and political instability on alliance formation. Significant advances have been made in understanding the *rational motives*

underlying the formation of alliances, by Ebers (1997), for instance, who notes that it is because of the dominant emphasis on rational motives from an economic perspective, that when such ventures involve a partner from a developing country, important institutional and power aspects are neglected. What is seen to be rational is defined in terms of the accounts that form the *sine qua non* of economics rather than the accounts of the actors who are actually constructing what *they* take to be rational action. An account in terms of economic motives *per se* is thus insufficient to explain the emergence of inter-organizational networking relationships or their organizational form if these accounts do not consider the diverse rationalities of the actors themselves (eg, Ebers, 1997). Thus, following the logic of Ebers (1997), we emphasize those conditions that facilitate and constrain the formation of inter-organizational relationships, such as the particularities of the institutional environment, and the dominant social institutions in which they are formed.

Institutions, by definition, are enduring rather than fleeting: while they may involve market relations they also involve political and cultural relations. The present paper focuses on the *formation* of a strategic alliance involving a partner from a developing and a developed country. The paper avoids the common focus on the motives for establishing alliances – at the level of the strategic actor – in favor of looking at what happens in strategic action when such alliances are formed.

In the present work the focus is on how contingencies at the institutional level have an impact on the formation of a specific type of network-joint venture. The analysis employs a phase model for the formation of a

joint venture, adapted from the works of Gulati (1998), which conjointly considers political issues (discussed in the resource dependence perspective: RD), cultural aspects (addressed in institutional theory: IT), as well as economic considerations (transaction costs economics: TCE). Our innovative contribution extends this framework to international joint ventures (IJVs) involving a partner from a developing country. The formal research question framing this work is simple: *How do the institutional environments of countries in different development stages affect the formation of IJVs between organizations from such countries?*

The remainder of this paper is organized as follows: first, we will discuss the motives and contingencies underlying IJVs constituted by organizations from developing and developed countries. Second, we will then discuss and construct appropriate theoretical foundations for such research. Third, we present a case study exploring the implications of our proposed framework for such an IJV. Finally, we conclude by describing how the effects of the institutional environments of countries in different development stages might frame the formation of IJVs.

### **International Joint Ventures – motives and contingencies**

IJVs represent one specific type of collaborative venture formed by at least two parent organizations from different countries, resulting in a new organizational entity with shared equity (Gulati, 1998; Osborn and Baughn, 1990; Harrigan, 1988; Pfeffer and Nowak, 1976). Yeheskel, Zeira and Shenkar (2001) define equity international joint ventures (EIJVs) in terms of an independent legal organizational entity being jointly

owned by two or more parent companies, where the headquarters of at least one of the parent companies is located outside the country in which the venture operates. Such a relationship typically entails considerable outlay of resources and creates enduring, and possibly irreversible, commitments between partners (Luo, 2001; Gulati and Westphal, 1999).

Harrigan (1988) explains that cooperative agreements such as strategic alliances differ from joint ventures because they do not involve shared equity. Because of this, cooperative agreements are often easier to terminate than EIJVs. On the other hand a joint venture may be preferred, since owners rarely pool their resources and efforts in cooperative agreements as they do when using joint ventures. Grandori and Soda (1995) focus on joint ventures as a proprietary network and emphasize that the economic relation constitutes an incentive system for sustaining cooperation. Joint ventures will be employed mainly in situations in which uncertainty and opportunism are particularly prevalent. Because joint ventures do not necessarily have a central coordinating firm driving the coalition, the power of the partners needs to be balanced, they suggest. Similarly, Gulati (1998) suggests joint ventures (JVs) exhibit characteristics similar to hierarchical organization forms. Such JVs employ structural coordination mechanisms – information systems, strategic planning, and incentive systems – that are common in hierarchical organizations while Osborn and Baughn (1990) argue that JVs can be viewed as quasi-hierarchies, because they do not involve a complete pooling of the parent's profit streams or the establishment of a single hierarchy.

IJVs are increasingly popular as a mechanism for entering new markets, and their complexity as well as the high degree of unsuccessful experiences with the form (Lane and Beamish, 1990; Fey and Beamish, 2001) has produced many analyses focusing on these problematic aspects. Among the explanations for a lack of success and low performance of IJVs, the following internal and external factors have been proposed:

1. The cultural differences between countries in which parent organizations are located (Child and Rodrigues, 2000; Rodrigues, 1999)
2. Differences in organizational cultural and climate (Fey and Beamish, 2001)
3. Changes in the environment in which the JV operates – technological ruptures, legislative changes, government interventions, the achievement of the objective intended by one parent organization (so that the failure is only viewed as such by one partner)
4. Power disputes between the venture partners: in Gulati's (1998:300) terms the partnerships may not withstand rapid environmental changes, shifting partner priorities and orientations.

Joint ventures in developing countries have specific problems in addition to those that are normally encountered. Managers of foreign partners often tend not to pay enough attention to the specific cultural and human characteristics of managers from developing countries, expecting that they will behave in much the same way as national managers or, sometimes, they tend to see managers from

developing countries in a discriminatory way, as neither competent nor trustful managers. Under these circumstances IJVs in developing countries may not function as readily as desired as a mechanism for the transfer of knowledge and innovation. Specific aspects of the way that the relations play out may act as barriers to the achievements sought. Accordingly, we argue that a set of contingencies – cultural, economic, strategic and political/legal – play a decisive role in the formation of international joint ventures. These contingencies are present in different intensities at different phases of the process of formation. The formation process in IJVs is initiated by the decision to enter into the IJV, the subsequent choice of an appropriate partner and, structure for the IJV and its dynamic evolution over time. Such evolution, because of the contingencies entailed, may not necessarily progress through the same sequence of events for all collaborative ventures (Gulati, 1998). Each collaborative venture will have a unique story – but their will be common elements that analysis can isolate.

#### **Intriciacies of Joint Ventures in Developing Countries**

When IJVs are between parent countries at different stages of development this factor will play an important role in the degree of complexity of international partnerships (Child and Rodrigues, 2000; Hyder, 1999; Beamish and Banks, 1987; Lane and Beamish, 1990). Differences in the development stages of the host countries tend to be accompanied by strong cultural and institutional differences, which may result, for instance, in higher transaction costs than for countries at more equivalent stages of development. Where partnerships are between firms from developed countries,

used to competing in the international market, there may be stronger power disputes over market share and technology, and thus have more to lose internationally, than a partner operating wholly within a domestic economy.

Beamish and Banks (1987) and Dussauge and Garrette (1999) note that JVs are the dominant form employed by multinational firms in developing countries. Multinationals prefer joint ventures to wholly owned subsidiaries, regardless of whether or not they are required by host country conditions of entry. The use of joint venture by multinational companies is not restricted to situations where the international inward investing partner attends to host-country regulations (Dussauge and Garrette 1999). Joint ventures in emerging economies enable host countries to improve the level of their inward international investment, as for example in Brazil, China and Mexico (Rodrigues, 1999), although not all IJVs occur for this reason. Moreover, when the state relaxes the joint venture requirements, typically there is little or no diminution in number and rate of formation of joint ventures, suggesting that the local partner serves strategic purposes, as Dussauge and Garrette (1999) note.

Beamish and Banks (1987) noted that IJVs in less developed countries are different in terms of their stability, autonomy, ownership, reasons for creating the venture, and management control. Such differences may be attributed to corporate governance variations, as Child and Rodrigues (2000, p. 5), based on investigations carried out in two emerging economies – Brazil and China – highlight, and as Sinha (2001) suggests, agreeing with Beamish and Banks (1987). Supporting their argument, he stresses the higher rates of instability in IJVs in less

developed countries where the foreign partners have a minority position. Many IJVs form because of government regulation in developing countries, he suggests, except where governments require the use of shared equity ventures as the price of entering their economies. While government requirements play a role, they are not the only determinant in the choice of shared-equity international joint ventures. National and organizational culture, and technological issues, can also play a determinant role in the choice.

Hyder (1999) criticized the studies of multinational JVs in developing countries carried out by Beamish (1985; 1987; 1988). He claimed that the quantitative character of these studies resulted in a superficial analysis of the differences between developed and developing countries. Hyder (1999) implemented a qualitative study of four international joint ventures –between firms from developed countries with partners from developed countries in two cases with two with partners from developing countries, focusing on characteristics of developed and developing country JVs. The major differences were in terms of motives, degree of conflict, ownership level and types of relationships. In the developed country IJVs, conflicting goals dominated, at times being more important than mutual goals. The financial return was not a shared goal for both partners, as sometimes ambiguous individual goals dominated. Because of their physical and cultural distance from the developing country, the foreign partner consciously developed informal relationships with local associates over time, essential to solving conflicts. The local partners' contributed support, mainly in the form of contacts with government authorities. The foreign partners made their major contributions in the field of technology,

production, product development, and quality control. For developing country IJVs there were complementary motives as all the partners considered the collaboration from a longer-term perspective and understood that they could only gain as long as the IJVs were in operation.

Joint ventures are an intermediary form between market and hierarchy. Often they are examined simply in terms of economic dimensions. However, any relationship between complex organizations, especially from different countries with different languages, cultures and stages of development, will necessarily involve power relations. It is a mistake to regard social and cultural dimensions as merely residual to the political intricacies of IJVs. Brazilian firms form international joint ventures for explicitly political motives: to acquire technology, to gain competitive advantage over local competitors, and access proprietary technologies, patents and power in the international market (Oliveira, Drummond and Rodrigues, 1999). Foreign partners seek to improve profitability through selling technology and management skills, desire access to structured commercialization channels, and lack knowledge of market, legislation, and local administrative practices, so they are also entering into a political compact. Inkpen and Beamish (1997) argue that firms access local knowledge as a means of overcoming market uncertainties to establish an operational presence in a country. They claim that, "IJVs provide low-cost, fast access to new markets by 'borrowing' a partner's already-in-place local infrastructure", such as sales forces, local plants, market intelligence, and a local marketing presence with knowledge of cultural traditions, norms, values, and institutional differences. Additionally, host

country governments also have political agendas that shape their regulation of the IJV context. In these situations equity shared IJVs are often used to obtain government support. Foreign partners want knowledge of the local economy, politics and culture, and a supply of general managers from the local partner (Lane and Beamish (1990) and expect to contribute technology, management expertise, and global support (Inkpen and Beamish, 1997). Regular technological improvements can be an important input for local firms. In the absence of host-government restrictions on foreign ownership IJVs are often the least cost alternative, where, for instance, an MNE has little previous experience in the subsidiary's country or industry (Gomes-Casseres 1988). Also, competitive pressures encourage internationalization in search of economies of scope and scale (Fey and Beamish 2001) which favours the IJV form because wholly owned subsidiaries often present cultural and institutional barriers. From the inwardly invested countries' point of view, globalization offers a quick way to access technology, international brands and management knowledge (Harrigan 1988). To do so entails learning (Hyder, 1999; Powell, 1998; Child and Faulkner, 1998; Hamel, 1990), in which the learning expectations of the partners will be different: developed countries' firms expect to learn about local environmental technical and institutional characteristics while firms from developing countries expect access to international technology and best practices.

Beamish and Banks (1987) claim that IJVs can provide a better solution to the TCE problems of opportunism, small numbers dilemmas, and uncertainty in the face of bounded rationality, than wholly owned subsidiaries, seeing the enhanced revenue

potential of an IJV as higher than the costs associated with writing, executing and enforcing pricing agreements and restricting the transfer of intangible assets. Hennart (1988) also claims that minimization of transaction costs is one of the reasons behind joint venture formation, whether 'scale' joint ventures or 'link' joint ventures. The former are created when two or more firms jointly enter a contiguous stage of production, distribution, or a new market. All the partners make similar moves of forward or backward vertical integration, horizontal expansion, or diversification. Link JVs are not symmetrical but may be a vertical investment for one party and a diversification for another (Hennart, 1988, p.361-362). Hennart (1988) points out that IJVs strategically relate to four main objectives:

1. Economies of scale and risk diversification
2. Overcoming entry barriers into new markets
3. Pooling of complementary knowledge
4. Avoiding xenophobic reactions when entering a foreign market.

Osborn and Baughn (1990) identify several factors underlying the choice of inter-organizational governance forms in R&D, using TCE, international strategy, and organizational theory, based on empirical study of US-Japanese cooperation. IJVs and international contractual agreements are commonly used to exchange technology, products, and services across national and firm boundaries. High technological intensity is associated with contractual agreements and joint ventures that, by providing joint ownership and control over assets, may bypass market inefficiencies. Equity control also serves to align the interests of the parent firms, reducing the opportunism that

may arise in contractual agreements. IJVs also facilitate superior monitoring and control mechanisms, because IJV owners may be legally entitled independently to verify financial information as well as to acquire information through direct observation, advantages that can compensate for high administrative costs. In sum, organizations are likely to form IJVs when joint R&D is present because it:

1. Facilitates information flows
2. Aligns the interests of the partners and reduces opportunism
3. Provide a structure for day-to-day coordination
4. Enable parents' to switch or defend current strategic postures when faced with overwhelming competitive forces
5. Combine talents for competitive vigor

### **Joint Ventures, Markets, Institutions, and Social Relations in Developing Countries**

International environmental changes have been highlighted as a central motive for cooperative strategies, related to changing market and institutional conditions. Markets are becoming more integrated and open because of economic blocks such as CEE, NAFTA and MERCOSUR. International economic organizations (IMF, OECD) pressure governments to minimize formal barriers in order to facilitate the flow of capital and goods between national economies.

For small companies in less-developed nations, globalization may mean domestic competition with multinational corporations. Cooperative IJV strategies represent alternative means for accessing international markets, through access to



economies of production, technology and support in foreign markets. For big companies, globalization tendencies open up new markets while intensifying domestic and regional competition. It is demand traits that suggest types of cooperative strategies needed while competitor traits suggest how firms will respond to these needs for cooperation (Harrigan 1988). The key traits are demand uncertainty, customer sophistication in assessing a product's differentiation and their abilities to command customized products from vendors, infrastructure development, production technology, the volatility of competitive behavior, and the nature and extent of linkages between the venture and its owners. Highly uncertain environments are less suited for highly formalized venture agreements. Joint ventures are less risky to undertake where products have the long-term potential to remain differentiated. Uncertain environments demand more flexible strategies than IJVs and Harrigan (1988: 149) suggests that "global industries are less hospitable environments for joint ventures than for less binding forms of cooperation, and ventures involving shared equity arrangements will be more prevalent where product configuration cannot be lent standardized across geographic markets because of the joint venture's lower strategic flexibility." Harrigan (1988: 157) sees fragmented industries as less attractive IJV settings because their firms are more likely to focus on "price-cutting tactics rather than non-price forms of competitive behavior". Where IJVs can effectively consolidate a fragmented industry, then technical efficiencies may well replace price competition.

Child and Faulkner (1998), borrowing from Michael Porter (1980), highlight that a

cooperative strategy may offer a mutually advantageous opportunity for collaborating firms to modify the position that they occupy within their industry. Through cooperative strategies firms may be able to increase their market power, subject to contextual contingencies such as customer bargaining power, supplier bargaining power, the existence of substitute products, and the intensity of industry competition. Gray (cited by Sharfman, Gray and Yan, 1991), identified six contextual factors creating an impetus for collaboration within and across sectors in the United States:

1. Rapid economic and technological change
2. Declining productivity growth and increasing competitive pressures
3. Global interdependence
4. Blurring of boundaries among business, government, and labor
5. Shrinking federal revenues for social programs
6. Dissatisfaction with the judicial process for solving problems.

Some of these contextual factors are competitive in nature while others are institutional. Competitive forces can stimulate inter-firm collaboration, which in turn may enable the partners to enhance the scope and sophistication of their competition. Firms can be forced to collaborate for survival's sake, as shown by the transformation of the U.S. domestic automobile industry from an arena of cutthroat competition to one featuring several interorganizational alliances. Finally, competitive pressures influence the formation of IJVs to try and reduce the level of uncertainty

While strategic and economic benefits are core considerations when entering a cooperative venture (Lane and Beamish, 1990) a number of contingencies shape both

the decision and choice of the partner. Institutional pressures can be exerted directly through coercion or indirectly through imitation or normative controls (DiMaggio and Powell 1991). Key contingencies include the role played by the state, cultural dimensions of the environment, and the nature of social relations. These dimensions are connected with each other.

The state is an important actor since it has the power to impose rules and change the economic and political environment (Fligstein, 1991). Greenwood, Suddaby, and Hinings (2002) demonstrate that governance systems can create and legitimate organizational forms. Government actions can be associated with protection of local capital, creation of incentives for international capital, restrictions on international capital, protection of proprietary technological and control of core sectors, such as telecommunication, energy, and bank. All these aspects can influence the formation of IJVs. By considering the host-country governments' position on international investments, Dussauge and Garrette (1999: 75-76) highlight three main types of benefits that IJVs can offer:

1. The foreign multinational becomes involved in the day-to-day running of the local operation rather than remaining in a 'hands-off' technology-provider position. Because of its stake in the IJV, the foreign partner will have a vested interest in making the operation a success.
2. The multinational partner's probability of adopting opportunistic behaviors reduces. Getting a local partner involved in the decision-making process can prevent the foreign firm from

behaving in an overly detrimental to host-country interests.

3. The integration of the host country into the world economy increases as a result of 'intra-firm' trade between the IJV and other subsidiaries of the multinational partner.

Dussauge and Garrette (1999) also argue that multinational companies can choose an IJV for reasons other than compliance with local legislation, when the local partner can contribute skills and assets that will increase the likelihood of successfully entering the target country. A good local partner will have a network of political and personal connections.

Cultural dimensions can shape management practices in a way that causes tension in interorganizational cross-border relationships. National cultural differences may be associated with differential trust; it may be more difficult for a firm to build trust in interorganizational relationships where countries present a lack of understanding of the cultural mechanism behind managerial practices. Cultural differences produce communication failures that tend to result in conflicts. Although cultural differences between countries used to be viewed as a negative factor in organizational performance, Yeheskel, Zeira and Shenkar (2001) have shown that not all cultural differences are dysfunctional; instead some can be functional.

Social relations occur at the individual and organizational level. Social relations represent an important contingency in all kinds of organizational relationship by guiding the firm's interest in new alliances, and by providing it with opportunities to realize that interest. Moreover, social networks of prior collaborative ventures provide an active

network of information exchange in which firms learn about the reliability and specific capabilities of current and potential partners (Gulati, 1998). Research on Italian networks shows that social relations play a central role as a coordination mechanism in production networks. Although North American firms present a more instrumental mode of operation, Uzzi (1997) shows that social relations were responsible for organizational success. Stevens and Beamish (1993) demonstrate that the establishment of personal relationships is central for Mexican managers, leading them to prefer to do business with Canadian rather than US organizations. For Mexican managers involved in successful interorganizational relationships personal relationships are a way to construct and build trust. Gulati (1998) observed that many new opportunities for collaborative ventures arise for firms through existing networks of partners. The previous experience of the partners is a crucial factor in explaining their choice of each other.

Ebers (1997) pointed out that relational studies focus on how pre-existing social relations among the individuals in a region foster and support the development of more formal business networking relationships among organizations. Family and friendship ties among local business people, common membership in local trade associations, sports clubs, and political institutions, all create and sustain social networks of mutual obligation, loyalty, and trust. As an advantage, actors can economize on more formal contractual safeguards when conducting business with one another. Joint ventures consist of a type of network characterized by more formal contractual safeguards than agreements between a supplier/customer. Social relations play a role during the institutionalization process of the

joint venture, as discussed by Ring and Van de Ven (1994).

Notwithstanding the voluminous work that stresses the role markets, institutions and networks play in the formation of joint ventures, general, and their effects on international joint venture formation involving partners from developing countries, in particular, there is no cohesive synthesis of theoretical perspectives providing a framework that brings together the factors affecting IJV formation. It is to answering this need that we now turn.

### **A Framework for International Joint Venture Formation involving developing countries**

Following a similar logic to that suggested by authors such as Grandori and Soda (1995) and Ebers (1997), we aim to use different theories to build an understanding of the formation of IJVs. According to Gulati (1998), some of the essential facets of firms' behavior in IJV formation include the decision to enter a collaborative venture, the choice of an appropriate partner, the choice of structure for the collaborative venture, and the dynamic evolution of the collaborative venture as the relationship develops over time.

#### **Theoretical foundations**

The central theoretical perspectives in past studies of IJVs that pertain to the formation of such collaborative ventures include transaction cost economics (e.g., Parkhe 1993), resource-dependence theory (e.g., Pfeffer and Salancik 1978) and institutional theory (Selznick's (1949, 1957)). We will discuss each of these theories prior to articulating a framework for addressing IJV formation.

*Transaction Cost Economics (TCE)*

TCE draws on concepts from industrial economics, such as concentration, size, rate of change and, client's characteristics (Perrow, 1986), which it relates to assumptions of bounded rationality and opportunism. These concepts help explain the need for a specific governance structure as they indicate market failures and the best kind of contract for each situation. As such, TCE provides a basis for examining various governance mechanisms as well as a diverse set of institutions. And it provides a framework with which to reach a better understanding of both organizational strategy and firm's market, competitive and technological environments (Hirsch, Friedman and Koza, 1990).

While TCE has a role for bounded rationality it is limited in incorporating the social dimensions underlying behaviour; it produces an under-socialised view of organizational phenomena where actor are viewed as if they were self-contained atoms constituted outside of a social context. Atomisation results from a view of the actor premised on a narrow utilitarian pursuit of self-interest (Granovetter, 1985). The lack of consideration of both the effect of social structure and relations on organizational processes of production, delivery and consumption creates a highly abstracted and simplified model for understanding organizational realities. Nonetheless, TCE is a common approach to the study of joint ventures (Tsang 2000; Hennart, 1991; 1988; Kogut, 1991; Fey and Beamish, 2001; Gomes-Casseres, 1996). These studies advance Williamson's work by explaining joint venture formation as resulting not only from a search for cost reduction but also point out elements derived from other theoretical approaches, such as a resource based-view

(Tsang, 2000) and institutional theory (Chen and Boggs, 1998). Beamish and Banks (1987) acknowledge that JVs incur high administrative costs but highlight conditions where JVs provide a better solution to the problems of opportunism, small number dilemma and uncertainty, than wholly owned subsidiaries. They suggest that in situations where a joint venture is established in a spirit of mutual trust and commitment to its long-term commercial success that opportunism is unlikely to emerge. In the absence of local partner opportunism, problems associated with a small number of bargains present much less serious transactional difficulties than normally might be expected.

Efficiency is the central concept of TCE, defined in terms of comparative cost effectiveness (Hesterly, Liebeskind and Zenger (1990, p. 403). TCE presumes that efficient arrangements always prevail over those that are inefficient, through interorganizational competition and market discipline, following the survival of the fittest argument. However, competition always takes place in an inherent context of political issues, which frames organization actions. These political issues play an important role in maintaining organizational survival, independently of questions of efficiency. Politics frequently prevail over pure markets in the interests of survival on power-holders terms (Clegg, 1990; Hirsch, Friedman and Koza 1990; Perrow 1986: 247). According to Selznick (1957), the higher the level of authority, the less will be the applicability of the efficiency concept. This is because management is inherently political rather than purely technical. Technical activities can be standardized through scientific arguments and agreed standards (Brunsson et al, 2000) but political behaviours depend on many other elements – ideology, belief systems,

myths, ceremonies, and historical aspects – which require learning to be consensually understood. For instance, different standards, operationalizations and meaning may be associated with efficiency in different countries; incorporating elements associated with cultural context. In different cultural contexts managers may find it difficult to reach an agreement about IJV aspects such as appropriate control mechanisms and performance measures. Furthermore, the higher the level of authority, the less likely is agreement between foreign managers concerning efficiency.

Roberts and Greenwood (1997) make reference to Williamson and note that “few economists would insist on an unrelieved efficiency theory of economic organization” (Williamson, cited by Roberts and Greenwood, 1997, p.2). The use of institutional theory (IT) and TCE to develop a more potential analytical framework is also made in Hesterly, Lieberskind and Zenger (1990). They argue that IT may provide useful guidance in identifying and understanding the costs referred to in TCE. IT also highlights the role played by institutional mechanisms of isomorphism on the choice of governance structures. IT expands the elements needed to understand how and why interorganizational arrangements are chosen in relation to hierarchy or market in a more realistic way.

TCE operates with a particular set of a priori values that are subject to contestation, going beyond the theoretical incongruence noted by a number of researchers (Perrow, 1986; Alter and Hage, 1993; Roberts and Greenwood, 1997; Hirsch, Friedman and Koza, 1990; Slater and Spencer, 2000). Clegg (1990) describes these values as follow: first, organizations are an aberration from a more natural form

of economic activity – exchange on the market, which is seen to maximize efficiency and personal liberty, criticizing the TCE explanation that if organizations produce monopolies as market failure then how can organization at the same time be the alternative to market failure? Clegg (1990) notes the dominance of the value of instrumental efficiency results from the emergence of contexts dominated by cultural conditions of rationalization. Such a cultural analysis supposes that institutionalisation of values is a determinant factor of certain types of organizations.

#### *Institutional Theory (IT)*

*Institutional theory's origins in Selznick's (1949; 1957) works show how rational aspects of organizations can be subverted by social aspects of organizations and their environments: organizations are not just bounded rational structures for reaching formal objectives and goals. Organizational goals are shaped as a result of the values and interests of organizational members and stakeholders. Cooptation is a central element in Selznick's work, (and plays a key role on the formation of IJVs in developing countries). The dynamic of old institutionalism resulted from its focus on organizational change and vested interests in organizations, providing it with a political dynamic that helps explain the phases of joint venture formation: 'new institutionalism' does not address power or explain how institutions change (DiMaggio, 1991; Dacin, Goodstein, Scott, 2002). New institutionalism emphasizes institutional mechanism of isomorphism and legitimacy as central elements in explaining the adoption of some kind of strategy and structure, such as collaborative ventures. Normative, cognitive, and coercive elements of the institutional environment are central to explain the*

*different phases of IJV formation. For example, government regulations (coercive), imitation to reduce uncertainty (cognitive) and the dissemination of internationalization models by professional consultants (normative) are significantly evident in international management.*

The concept of institution referred to by Selznick (1972) broke the traditional view of organizations as mere technical instruments for reaching goals and objectives or "as the structural expression of rational action" (Selznick, 1948, p.25). Theorists of new institutionalism bring back Weber's concept of legitimacy to say that the organizational environment cannot be reduced to exchanges relations in the market. Organizational environments must be conceived in terms of social and political elements shaping legitimacy for organizations. Legitimacy can be expressed by formal structure and administrative practices, independently of technical efficiency (Meyer and Rowan, 1991). Theorists of new institutionalism defend legitimacy as a central point in organizational survival. Both institutional approaches contribute to explaining the relation of organization/environment, although they do so by emphasizing different elements (cooptation and myths of rationality) and different notions of organizational environment (community and organizational field), approaches that are more complementary than divergent (Selznick 1991). Institutional theory acknowledges environmental power in shaping organizational structure and in affecting performance. However, institutional theorists insert cognitive and normative dimensions in this process and conceive of social and cultural elements as organizational determinants using the mechanism of

isomorphism to refer to institutional and competitive pressures in an organizational field (DiMaggio and Powell 1991, p. 64-65).

Meyer and Rowan (1991) and Tolbert and Zucker (1983) developed the concept of isomorphism in relation to two organizational characteristics: structures and practices as an alternative to the dominance of rational formal structures, with their accounts based on the determinant role of the growing technical complexity of work demands, and insight that organizations arise in highly institutionalized contexts which guide them to incorporate dominant practices and procedures understood as rational by other organizations and institutions in the society/community. Thus, formal organization structures deeply reflect the myths of their institutional environments instead of the technical demands of their work. Organization isomorphism with environmental institutions has crucial consequences for organizations as they incorporate elements which are legitimated externally, rather than in terms of efficiency; they employ external or ceremonial assessment criteria to define the value of structural elements, and depend on externally fixed institutions to reduce turbulence and maintain stability. As a result, they affirm that isomorphism promotes the success and survival of organizations.

DiMaggio and Powell (1991) agree with Meyer and Rowan (1991) by affirming that isomorphism proffers an alternative explanation of the homogenization of organizational forms. Homogenization happens at the level of organizational field because organizations share a specific environment (DiMaggio, 1991, p.267). DiMaggio and Powell (1991) point out that the structure of an organization only exists to the extent that it is institutionally defined.

The process of institutional definition or structuring consists of four parts: an increase on the extent of interaction among organizations; the emergence of sharply defined interorganizational structures of domination and patterns of coalition; an increase in the information load with which organizations contend, and the development of mutual awareness among participants in a set of organizations that they are involved in a common enterprise. When organizations from less developed countries present behavior isomorphic with that of organizations from developed countries, then where the organizational field of firms from less developed countries is low, these firms seek to imitate organizational practices of organizations already institutionalized and legitimated in others organizational fields.

#### *Resource Dependence (RD)*

Organizations are part of a social, economic, and political environment, where they seek resources to survive. The importance of certain kinds of resources for one organization, combined with their scarcity in the market, tends to produce a high degree of dependence from the controllers of these resources, in a debate fundamental to analysis of joint ventures, mainly in relation to motivations about the choice of a partner. Pfeffer and Salancik (1978), with Mindlin and Aldrich (1975), give emphasis to the concept of organizational effectiveness. They emphasize that organizations survive because they are effective, an argument that is somewhat tautologous in its functionalism. Effectiveness stems from the management of demands, particularly from those interest groups on which the organization depends for resources and support. Aldrich and Pfeffer (1976) consider the issue of interorganizational relations to be a special

case of the more general study of organization and of its environment. They view the environment as a powerful constraint on organizational action that managers can learn to navigate. Accordingly, the social coordination of interdependent actors is possible as a means for managing mutual interdependences with four primary benefits associated with the linkage:

- 1) Information about the activities of that organization which may impinge on or affect the focal organization
- 2) A linkage provides a channel for communicating information to another organization on which the focal organization depends
- 3) Obtaining commitments of support from important elements of the environment
- 4) Legitimizing the focal organization.

Developing Child's (1972) ideas about strategic choice, Aldrich and Pfeffer (1976) emphasize that intraorganizational coordination is a power relation affected by environmental uncertainty produced by resource scarcity (Aldrich and Pfeffer, 1976, p.102). Joint ventures are a key example of coordination mechanisms among organizations because they make possible the sharing of information and commitment of resources. Pfeffer and Salancik (1978, p. 154) argue that joint ventures can be analyzed from the perspective of uncertainty reduction and the development of an interorganizational collective structure. According to Child and Faulkner (1998), the resource dependence perspective, by focusing on the organizational necessity of resources, explains why organizations, particularly those transacting internationally,

undertake cooperative strategies (Child and Faulkner, 1998, p. 34).

### **Implications for IJV Formation**

#### *The decision to form an IJV*

Empirical research indicates that strategic motives, such as the acquisition of knowledge, the achievement of more market power, increasing organizational efficiency, as well as contingencies such as firm size and industry, are crucial issues in the decision to form a collaborative venture; thus, it is necessary to integrate elements of economics, social, political, and cultural issues to explain the decision to enter into an IJV... As Hamel (1990) argues, collaborative ventures are a race to obtain knowledge in which winners learn faster. Beyond these aspects, however, social issues, such as the embeddedness of the organization, come into play. CEOs can be stimulated by directors from other firms, with whom they maintain relationships, to see collaborative ventures as an alternative. The values shared by CEOs in an organizational field shape the legitimacy of the IJV as a practice (Haunschild 1993). Thus, management decisions to form an IJV with a partner from a developing country are affected by resource requirements and dependencies as well as the management's social relationships and the institutionalization of IJVs involving developing countries.

#### *IJV Partner decision*

Gulati (1998) suggests the decision to form a collaborative venture is conditional on the availability of a good partner. Resource dependence theorists argue that the choice of a partner is related to the existence of a strategic interdependence between organizations located in the same environment. Firms seek partners able to

reduce their interdependence through having complementary resources that are scarce or new, such as particular technologies. Not all interdependence between firms results in IJVs (Gulati 1998). Firms first need to learn about collaborative opportunities before interdependence comes into play. Social networks and information from previous relationships are fundamental for partner choice and, because of the risk of opportunistic behavior, are indispensable. While reputation is important when selecting a partner there are a number of other aspects that play a role in the decision about the partner, such as objectives and resources complementarities, geographical and cultural proximity (organizational and national culture), the existence of alternative partners, their financial condition, the domain of local institutional context, the technology and market domain, and the opportunity to be the first to propose an alliance. Firms with more social capital attract better partners. In other words, the social capital accumulated by one organization can be included as another variable in explaining the quality of partner choice.

#### *The choice of governance structure for an IJV*

Organizational cooperative arrangements vary significantly as a result of the degree of interdependence of the parent companies and the degree of autonomy expected. To Larange and Roos (1996), the lower the degree of interdependence, the closer will be the governance structure of governance to the hierarchy model, in this case, to joint ventures. The lower the degree of interdependence, the closer will be the structure to market governance. Gulati (1998) explains that when firms decide between governance structures the higher the anxiety about the merger by the partner,



the more hierarchical will be the structure of governance. When there is risk of absorption by the partner the tendency is for a joint venture. Social embeddedness emphasizes the importance of trust among partners. Trust among firms refers to the belief that a partner will not explore the vulnerability of another partner (Gulati, 1998). Thus, the choice of a particular governance structure with respect to an IJV involving a partner from a developing country can be explained using a synthesis of implications originating from TCE and IT.

*Dynamic evolution of an IJV*

Understanding the dynamic evolution of a collaborative venture provides critical

insight into how ties are managed. It is each partner's sense of the future payoffs which is important. Gulati (1998) suggests there are specific stages in this sensemaking, in which the influence of the development stage of the parent companies countries, their technical and institutional contingences, and the relations of power in all phase of the formation process will shape the IJV. The process can be explained by combining elements from TCE, IT and RD in a complementary way to explain IJV formation. The theoretical model is presented in Figure 1, as follows, which we will use to interpret a specific case study.

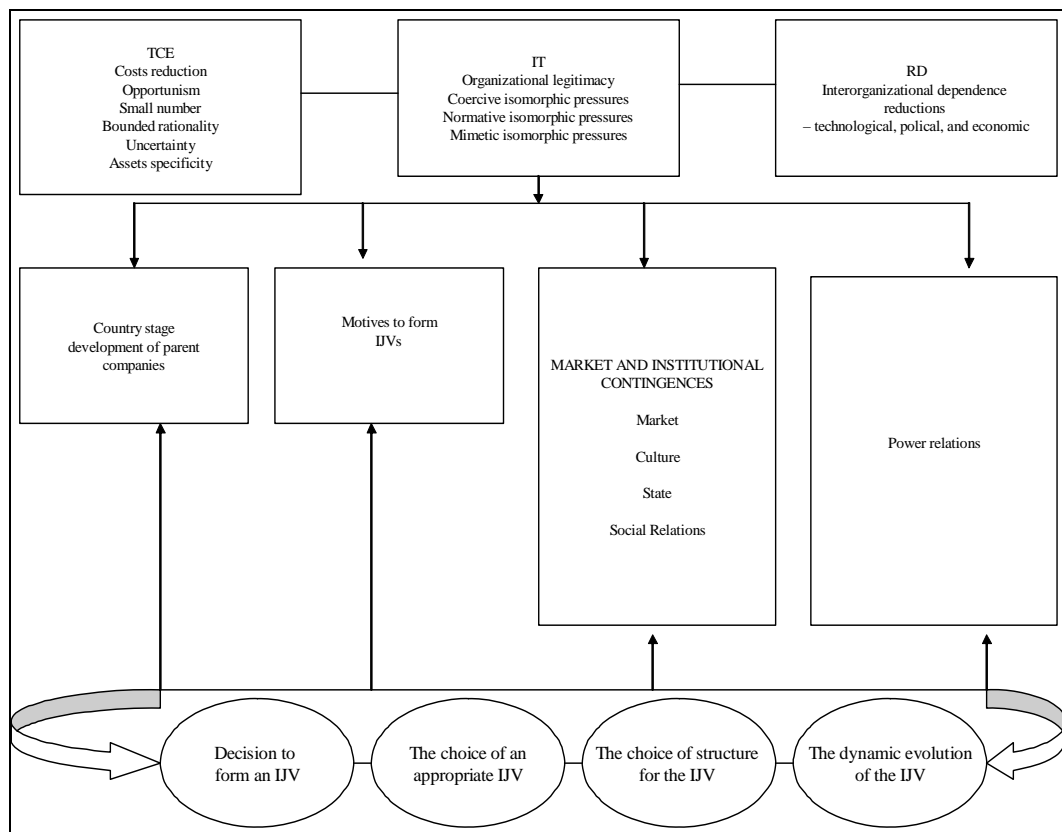


Figure 1: Framework of IJV Formation for Developing Countries

### The Case of Puig Memphis

The empirical aspects of the paper investigate a case study of a joint venture formed between a Brazilian firm (Memphis Industrial) and a Spanish firm (Antonio Puig). This partnership resulted in the creation of the joint venture Puig Memphis, a Brazilian IJV. The study employs analysis of documents and files, in-depth interviews with one of the parent companies, Memphis Industrial's senior managers and CEO as well as those from Puig Memphis. The interviews took place in 2001 and in 2003. This separation allowed study of the evolution of the partnership. The interviews took around one hour and were subsequently transcribed. The analysis of the data employed documentary and content analysis.

#### *Brazil and Spain – institutional characteristics*

While Brazil and Spain are at different stages of development, and thus one would expect that their institutional environment would present important differences, there are important cultural similarities (Hofstede, 1980).

Subsequent to the consolidation of liberalization and privatization of the Spanish economy, the main Spanish entrepreneurial groups, with the support of several state governors, started a strategy of international expansion in which Latin America was an important destination. In the 1990s this region became the main destination of Spanish investments, which, by 1998, represented 72% of total investment (Eurotendências, 2003). In the 1980s, 64% of Spanish investment was in the European Community, 8% in the US, and only 4% in Latin America (Eurotendências, 2003).

The opening of the Brazilian market in the 1990s lead governments to develop programs to improve the quality of Brazilian

products and to augment industrial productivity to reduce inefficiency and increase the scale of Brazilian companies to become more competitive and internationally oriented.

Child and Rodrigues (2000), using the Global Competitiveness Report of 1999, analyzed the relationship between economic and institutional environment on the choice of IJVS governance structure in Brazil and China. By comparison with the US, Brazil and China rate lowly on legal system, institutional instability, freedom to negotiate IJVs without government interference, work ethic, management quality, management education, sophistication of financial markets, and effectiveness of supply chains although Brazil was more favorable institutionally in terms of its legal environment, more sophisticated financial market, and higher quality of management activities. Also, in Brazil company law regulates the governance of publicly held companies, including the rights of minority stakeholders.

Compared with the Spanish institutional environment Brazil presents great challenges for market entry, including accessing channels of distribution, comprehending local trade practices, grasping the specificities of consumer behavior, in a context framed by a set of national and multinational companies with well structured commercial activities in the domestic market. Given these problems, a fast entrance, as planned by the Spanish company Antonio Puig, was almost impossible without a partnership although the existence of regulatory patterns, regulatory law applying to technological property and the existence of production infrastructure were favorable issues in Brazil for attracting IDE (Investment direct of exterior).

*The perfume segment in Brazil and Spain*

In Brazil, during 1996 to 2001, the perfume sector had a 12% share in the cosmetic industry. In this same period, the sector grew around 9% per year (Garcia and Furtado, 2002). In 2002 Brazil sold R\$ 9.6 billions, against R\$ 5.9 billions of perfume in 1998. The sales in the entire world were US\$167,160 billions in 1998 against US\$147 billions in 1990. However, although Brazil presents a potentially big domestic market, its position as an exporter and importer in the international scene is not significant (Garcia and Furtado, 2002).

Perfumery in Brazil arrived at the end of the fourteenth century, with the Portuguese Court. By the end of 1960s, the main world fragrances were available in Brazil. In the 1990s, mainly after 1992, the main import firms became established. Brazil is one of the biggest market for cosmetics; in 2000 it occupied the 4<sup>th</sup> position in the world market, accounting for 5.6% of the perfume consumed, reaching US\$1,14 billions (Garcia and Furtado, 2002). Perfumery is one of the few Spanish industries to be internationally competitive. In 2002 Spain occupied the 10<sup>th</sup> position in term of consumption of cosmetics and 6<sup>th</sup> position as an exporter while Brazil, in 2000, occupied the 28<sup>th</sup> position (Garcia and Furtado, 2002). Latin America has always been the main market for Spanish industries. In the case of Antonio Puig its share of market was greater in countries that spoke Spanish. In these countries, such as Chile and Mexico, Antonio Puig has subsidiaries and local partnerships.

*The IJV Puig Memphis and its parent companies: Antonio Puig and Memphis Industrial*

Antonio Puig S. A. is part of Puig Beauty & Fashion Group, a multinational whose activity

is based in the perfumery, cosmetics and fashion sectors. At the present their products are distributed in over 150 countries via a network of 40 subsidiaries. More than 5.000 people work in this common project. Fragrances and personal care represent 48% of the group business. Among the brands with most prestige in the Group are Carolina Herrera, Nina Ricci, Paco Rabanne, and Payo.

Memphis, the Brazilian parent company, was founded in 1949 through a process of acquisition and remains a family business. The firm acquired a portfolio of products including soap, lotion, talcum powder, and others. In terms of market share, Memphis has around 4% of soap and 5% of deodorant Sales. The Brazilian company, in terms of size, is much smaller than Puig Memphis but the difference is not significant compared to firms such as Johnson, Procter & Gamble, and Avon. Memphis had refused partnership with North American companies because of the risk of acquisition and because of the difficulty of maintaining direct contact with the owners. The IJV formed with Antonio Puig was the first collaborative venture in the history of Memphis Industrial. The firm was planning a collaborative venture; however, it was Antonio Puig that first approached Memphis to form a partnership.

Puig Memphis S. A. , the IJV formed between the Spanish Company Antonio Puig with de Brazilian Company Memphis Industrial, was created in 1999 and formed in just three months. Antonio Puig controls 51% of the capital and Memphis Industrial 49%. Puig Memphis reached 1% of market share in the first year of its activities in Brazil. The main competitors are Natura (32% of market share), Avon (16% of market share) and, O Boticário (20% of market share). Boticário and Natura are Brazilian companies that

operate in the international market, including Europe, the Arabian Countries and Latin America. The main brands of Puig Memphis are Diavolo; Per Donna; Mediterraneo; Quorum, Água, Thaís; Água Brava; Água Brava Sea Power.

*Political, social, cultural and, economic dimensions in the process of forming the IJV Puig Memphis*

Forming a relation: Memphis Industrial had been seeking an international partnership for five years. In 2002 the strategic plan presented an emphasis on the intention to form a strategic collaborative venture. Memphis sought a partnership that could offer international brands, marketing technology, and products with greater value. The firm wanted to enter into a collaborative venture to reduce the risk of dependence on just one business alternative. The expectative of Antonio Puig was to find a firm with the capacity to distribute their products rapidly to reach the entire Brazilian market without making high investments.

In the era of globalization big distributors seek suppliers with access to dominant distributors, such as, in Brazil, the Carrefour supermarket. Anonio Puig sought a partnership to reduce investments, share risks and speed up access to local markets. The collaborative venture afforded Memphis the option of entering into a new business for which they did not have the technology. In exchange, Memphis offered access to their delivery chains. Beyond that, Memphis offered the legitimacy and prestige of a brand with more than fifty years presence in the Brazilian market in which personal and organizational reputation plays an important role.

Cooperative governance arrangements reduce transaction costs in

international trade. Antonio Puig did not choose to contract a local distributor to distribute the semi-exclusive perfumes because that meant running the risk of opportunistic behavior and the assumption of considerable risk: the local distributor might not accept the brand priorities of Antonio Puig. Thus, from the outset Antonio Puig did not want a wholly owned subsidiary with high costs of production, wage and salary costs and those associated with building a distributional structure. For Memphis, the possibility of sharing entrance costs in a new business through an IJV was an efficient cost reduction alternative. Through the IJV, the firm gained access to the technology of perfume production, international brands, and sophisticated global marketing knowledge.

From an IT approach, for Antonio Puig, Brazil's complex and hardly mature institutional environment positively influenced the choice of a partnership. For Memphis, the institutional environment of the 1990s was favorable for strategic collaborative ventures as legitimate alternatives for companies. The Memphis CEO saw the theme of collaborative ventures as much in evidence and all their managers had experienced the idea in training programs and academic courses.

Memphis had the production technology for popular products of low cost. From a RD perspective, Memphis sought a strategy to manage environmental interdependences., especially acquiring technology to enter the new business of semi-exclusive perfumes. To do so, Memphis would need to invest highly in R&D to gain knowledge of production and marketing techniques. Memphis also required international brands to enter semi-exclusive perfumes segment. The joint venture made it possible to access these commercial assets,

opening the market for Memphis. Another Memphis dependence was associated with financial and human resources: the IJV became feasible as a way of managing these areas of environmental interdependences for both companies.

Choosing IJV partners: In 1999, Antonio Puig contracted a New York bank to study Brazil in order to select firms with a significant market share in the cosmetics market. The firms should also have the capacity to deliver products in all of the national territory. Memphis was chosen because it met all criteria and had technology and production capacity.

Memphis saw several advantages in forming a collaborative venture with Antonio Puig beyond gaining international brands and marketing technology. According to the CEO of Memphis, the fact that Antonio Puig is one of the biggest perfumery companies in the world and that they have activities in more than a hundred countries, with considerable expertise and a trajectory of success, was important. In other words the partnership met the requisites emphasized by Larson (1992) as fundamental – that is reputation as a condition for starting a process of negotiation. A strong reputation by one of the partners in an industry provides the benefit of institutionalized product quality.

For Memphis, the fact that Antonio Puig was a family company produced a high sense of security because each set of family owners was able directly to negotiate with the other. As well as congruent values, some key differences were also attractive. Antonio Puig is known for its emphasis on marketing while Memphis emphasized costs and production.

Social relations played an important role in the consolidation of the partnership, in

accord with Ring and Van de Ven's (1994) argument. Both firms saw the IJV as an alternative to reduce dependences imposed by the technical and institutional environment. Considering the technical aspects, the partners gained scarce resources that were fundamental for entering that market. For Antonio Puig, the dependences were associated with knowledge of the institutional context and access to channels for the products, which the partner possessed.

Institutional issues, including legitimacy, influenced both firms. Personal and organizational reputations acknowledged during the negotiation process sped up the process. From the point of view of the Brazilian CEO the Spanish team comprised felicitous people, sensible, friendly and respecting of the Brazilians. For Brazilian people these aspects were very important and made the process of communication easier.

Structuring the collaborative venture: Memphis was reluctant to admit capital from other firms, displaying traditional institutional and cultural characteristics of Brazilian family businesses. The IJV was a governance structure not often previously employed by Antonio Puig. According to the Chief Financial Officer of Puig-Memphis, the choice of this kind of governance structure for the IJV by Antonio Puig was a consequence of the high complexity of the Brazilian market, the complexity of political tax regimes and their frequent changes. Moreover, Brazilian regional differences posed serious challenges in organizing a delivery structure, because of the size of the country and the imbalance of regional development. A local partner minimized the need for capital and would

already have an established technological base.

During the definition of the structure of the JV itself, it was evidently the attention of Memphis to maintain control of the firm's activities. In this sense, the CEOs established in the contract that, although Antonio Puig had capital control, Memphis would be responsible for administrative and production control. Concerning to the allocation of CEOs, the control of marketing stayed with Antonio Puig and the control of the administrative and financial departments stayed with Memphis, a situation that met the expectations of both companies. According to the CEO of Puig-Memphis, control of the marketing department enforced the intention of Antonio Puig in defining the political stakes as the brands of Antonio Puig were one of its main assets, having reached an international level of development.

The advantages visualized by Antonio Puig in forming an IJV for entering into the Brazilian market fitted with the advantages described by Barkema and Vermeulen (1997), which affirm that a JV makes it possible for a firm to share the costs and risks of entrance in a new market and, at the same time, makes possible the use of knowledge of the local partner about the institutional context, consumer preferences and business practices. Based on Fey and Beamish (2001) one can confirm that Antonio Puig also chose a JV as the best alternative to bypass cultural and institutional barriers, confirmed in this case, after two years of the partnership, by Antonio Puig recognizing that Memphis' local market knowledge was highly significant in their specific segment of perfumery.

Dynamic evolution of the IJV: Antonio Puig did not mean to create a local subsidiary to

explore the Brazilian market: the CEOs of the Puig Memphis IJV meant the partnership to be an agreement for the long term. The IJV is doing well and meeting the expectations of both partners, having reached first position in terms of its capacity for national distribution of perfumery to retailers. Memphis obtained marketing technology for products with more aggregated value and incorporated new practices of production as a result of their direct contact between researchers and managers from the foreign partners. In general what they gained was tacit knowledge that couldn't be passed by an instruction manual. According to local managers from Memphis, if they had to decide do the partnership again, they would do it at the same way. For the president of Memphis, some operational issues and market projects could have been done with more precision and realism but these problems did not affect the relationship between them. According to the Memphis CEO, commitment and continuity were achieved because they developed strong trust. Moreover, the trust between them made it easy to adjust the contract and maintain accord for aspects not anticipated.

The dynamic evolution of the IJV meant both firms gained better visibility and legitimacy in the institutional environment, which was not an explicit objective. After the establishment of the partnership, national and international firms gave more attention to negotiation with Memphis because of the fact that it was working with a famous company. On the other side, the Spanish company Antonio Puig became acknowledged in Brazil; as a consequence entrance to other business became easier.

The economic performance has not yet met the level expected by Antonio Puig and Memphis Industrial. The continuity of the

collaborative venture can be explained by a belief that the results were not as expected because of macro-issues in the national scene. The results were sufficiently positive to justify the collaboration. Also, as Ring and Van de Ven's (1994) propose, there exists a powerful social-psychological motivation for preserving relationships that involve investments in specific transactions. In this sense, one can explain the continuity of the collaboration as a result of social relations far beyond the economic outcomes.

Another explanation for the continuity of the collaborative venture comes from Inkpen and Beamish (1987): endogenous facts helped to maintain the collaborative venture, such as: 1) both partners maintained the strategic mission; 2) the IJV continues being important for both parent companies; 3) finally, it was not developed from a competitive rivalry. Beyond these aspects, environmental issues were favorable too, such as: the stability of Brazilian legislation for international investments and for property rights, changes in either of which could be negative for the foreign company. Changes in the political regime did not occur that could produce environmental instability. Finally, great changes did not happen in the bargaining power between the companies, associated with the knowledge acquisition, which might permit one of the partners to eliminate the other. Social control was based on self-regulation with a moral dimension, as already verified in other collaborative dyads by Larson (1992). Moral commitment guided the partners to avoid distrust or behavior that could affect the integrity of the partner and of their members, and was enforced in the discourse of all Memphis CEOs, as well those CEOs that composed the IJV Puig Memphis.

## Conclusion

Understanding the IJV between the companies requires a framework that integrates IT, RD, and TCE, as demonstrated in the model that we constructed. Both economic and strategic motives played a central role, evident in the fact that the partners did not have prior contact and did not share the same social space. However, the social relations established between the CEOs of the parent companies were decisive for the speed of the agreement and for defining the partnership and, ultimately, the IJV.

The application of the framework shows that developing an integrated perspective which accounts for TCE, IT and RD provides a better understanding of the process of the formation of the IJV. If analysis had been based just on TCE and had not considered issues such as reputation, cultural, and social relations, it would not have been possible to comprehend the processes of institutionalization that occurred in the IJV. Nor would it be possible to explain the decision about the choice of the governance structure – in this case an IJV – without RD theory. Seeking to reduce transaction costs was a key concern for both parent companies in all phases of the process of the formation of the IJV. The development stage of the home countries parent companies was fundamental in framing the partners' motives for entering into the collaborative venture and the decision about choice of partner. We noticed that these comparative differences enhanced the importance of IT and RD in explaining the role of political, social and, cultural variables. We can hypothesize that the greater the institutional distance among partner countries the more relevant will be the use of approaches that do not reduce the IJV

formation process to a purely economic phenomenon.

To sum up: we found that a perspective that focused on one or other of cultural, political, and economic perspectives was insufficient. Elements of each perspective were necessary to understand the different phases of the alliance formation process. The specificities of national cultures (economic and political stability, language, historical proximity and similarities, international image), organizations (their cultures, types of governance, levels of social interaction among CEOs, and the ethnicity of CEOs and companies' founder) were all important. Thus, we emphasized the necessity of developing qualitative and longitudinal studies that make it possible to understand in depth how specific contextual elements are related to each phase of the process.



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