

**UNIVERSITY OF VAASA**  
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**DETERMINANTS OF INTERNATIONAL JOINT VENTURE TERMINATION  
MODE CHOICE: A MULTIPLE CASE STUDY**

Master's Thesis in  
Strategic Business Development

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**LIST OF ABBREVIATIONS**

<b>IJV</b>	<b>International Joint Ventures</b>
<b>JV</b>	<b>Joint Ventures</b>
<b>HR</b>	<b>Human Resources</b>
<b>FDI</b>	<b>Foreign Direct Investment</b>
<b>R&amp;D</b>	<b>Research and Development</b>
<b>LOF</b>	<b>Liability Of Foreignness</b>
<b>M&amp;A</b>	<b>Merge and Acquisition</b>
<b>TCT</b>	<b>Transaction Cost Theory</b>
<b>B2B</b>	<b>Business to Business</b>
<b>CIS</b>	<b>Commonwealth of Independent States</b>
<b>MNE</b>	<b>Multinational Enterprise</b>



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**ABSTRACT:**

Globalization pushes firms to go international. International joint venture (IJV) is an important mode to enter into international markets. However, termination rate of IJVs is very high. Prior research has very limitedly focused on the termination modes choice of IJVs. Therefore, the main purpose of this thesis is to find out determinants of IJV termination mode choice. Theoretical framework of this study is developed by using divestment theory, liability of foreignness (LOF) and foreign direct investment (FDI) motive theory. Developed framework involves four level factors which influence the termination mode choice, namely, firm, IJV, inter-partner and host country level factors. Framework is tested by qualitative multiple case data. The data is collected from three companies that have terminated their IJVs by acquisition, sell-off or closure.

The study finds that 17 out of 26 identified determinants explain the case companies' termination mode choice. However, only ten of them were important for the IJV termination mode choice. IJV was terminated via acquisition when IJV was profitable for the entire time of the implementation, the parent firm was willing to expand the presence in the target country, acquisition was prescribed in IJV formation contract, the parent firm had previous Merge and Acquisition (M&A) experience, IJV was from the same industry as parent firm, parent firm had the majority equity of IJV and the parent firm support to the IJV was high. Further, high political instability in the target country, strategy instability of the parent firm, M&A experience, parent firm lack of expand, equal-IJV and un-related IJV industry explained the choice of sell-off IJV termination mode. In addition, lack of parent firm M&A experience and expansion desire, high political risk, and small size of IJV explained the choice of closure IJV termination mode. However, it is found that inter-partner related factors are not important in explaining the IJV termination mode choice.

In addition, findings show that carefully crafted contracts that specify the IJV termination mode also guides the future termination mode choice of IJV. These findings help managers to better understand the factors that explain the choice of IJV termination mode.

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**KEYWORDS:** International Joint Venture, Termination, Determinants, Closure, Sell-off, Acquisition



## 1 INTRODUCTION

*This chapter provides an overview of the thesis. First of all, the background of the study is discussed stressing the importance of the research phenomenon under consideration. Then the chapter emphasizes the research gap in the literature. Based on the research gap, main research question and study objectives are formulated. Next, the chapter provides the definitions of the key terms, and discusses the delimitations of the study. Finally, the chapter explains the structure of the study.*

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### 1.1 Background of the study

The increased dynamics in the competitive environment in the past decades owing to the macro-trends of globalization, the proliferation of regional trading blocs and advances in technology, among others, has led firms to internationalize (Seifert & Machado-da-Silva 2007). One of the most significant actions during the process of internationalization is the choice of entry mode. It is an important decision during the internationalization process and it has received significant attention from many scholars (e.g. Root 1982; Luostarinen & Welch 1990; Datta, Herrmann & Rasheed 2002; Welch, Benito & Petersen 2007; Morschett, Schramm-Klein & Swododa 2010). According to Pan and Tse (2000), entry modes may be classified into four categories: export (when a firm transports products to the target country without physical presence there); contractual agreements (when the presence in the target country mainly depends on the contract); wholly owned subsidiary (WOS) (full presence of the company in the target country), and international joint ventures (when a firm cooperates with a foreign partner and partly invests in the target market). Prior research has shown that international joint ventures (IJVs) are the most popular means of international expansion (Bener & Glaister 2010; Ali & Khalid 2017). Over the past twenty years, an increasing number of companies have formed IJVs. It is this trend to form IJVs, very much discussed by both academics and managers, which constitute the subject matter of the present thesis.

Prior research suggests that although IJVs have emerged as a popular organizational form to enter into target countries, they are not always a panacea for foreign firm's competitive woes; resource constraints; rising investment costs, risks and environmental uncertainty in the target countries (Kausar & Shaw 2004; Luo 2007). Therefore, many

scholars (Nemeth & Nippa, 2013; Mata & Portugal 2015) suggest that IJVs often confront high chances of termination. IJV termination is an important decision as it impacts the wealth of the firm's shareholders and defines the future activities of the firm in the target country (Moschieri 2011).

Prior research has intensively focused on the determinants of IJV termination (e.g. Cui & Kumar 2012; Pattnaik & Lee 2014; Panibratov & Brown 2018) but less on how firms terminate their IJVs and why firms choose different IJV termination modes (see Nemeth & Nippa 2013 for review). According to Meschi and Wassmer (2013) and Nemeth and Nippa (2013) a firm can terminate an IJV using one of the following three methods: (1) the firm can buy the stake of the other partner and thus continues the IJV's operation alone (i.e. acquisition); (2) the IJV is liquidated (i.e. closure); and (3) the firm sells its stakes to the IJV partner or to a third firm. Further, Chang and Singh (1999) suggest that IJV termination mode choice is an important decision as it impacts the overall performance and profitability of the firms. However, with few exceptions (e.g., Hennart, Kim & Zeng 1998; Mata & Portugal 2015) prior research has mainly aggregated the IJV termination modes and focused on the determinants of IJV termination. Therefore, there is need to investigate the factors that explain the IJV termination mode choice which is very limitedly studied before.

## 1.2 Research questions and objectives of the study

The preceding discussion about the research gaps on IJV termination research steers the course of the present study. The basic objective of this thesis is to investigate the factors that explain the international joint venture termination mode choice of firms. Accordingly, the main research question is:

### ***What are determinants of termination mode choice in International Joint Ventures?***

To answer this research question, specific sub objectives for this study are given below:

- ✚ To study the definitions, motives, characteristics, and terminations modes of the IJVs
- ✚ To study the firm, IJV, inter-partner, and host country level factors of IJV termination

- ✚ To explore the role of firm, IJV, inter-partner and host country level factors in explaining the termination mode choice of IJVs

### 1.3 Delimitations of the study

This master's thesis has several important delimitations. First of all, the focus of this work is on IJV termination modes. Consequently, other entry modes are not examined (e.g. WOS, project operations or export). Secondly, in this thesis, only the main firm, IJV, inter-partner and host country level determinants of IJV termination are considered. However, there are also other factors like industry and home country level factors that may influence the choice of IJV termination mode. Due to the limited resources, it is not possible to investigate all of the factors. In addition, as the general model is developed, there will be a number of minor differences depending on the host country and region. These differences should be taken into consideration before using the model in different host countries and regions. Further, entry mode combinations, mode decrease are also not focused in this research.

### 1.4 Previous studies

Since the research topic under consideration is quite new, therefore prior research related to the topic is very limited. However, despite such a small number, the most relevant studies for the present study are given below.

**Table 1.** Previous studies related to IJV termination.

Study name	Sample	Focus of the study	Methodology	Findings
<b>Kogut (1989)</b>	475	Stability of IJV.	Quantitative	R&D and scale intensives, change in concentration, and median concentration are important in stability of IJV.
<b>Park &amp; Ungson (1997)</b>	430	Determinants of IJV sell-off and liquidation.	Quantitative	Big cultural differences cause small percentage of dissolution; Competition between partners and operational overlap, and 50-50 IJV's increase the percentage of sell.
<b>Chang &amp; Singh (1999)</b>	772	Effect of entry mode on exit mode.	Quantitative	Multinational Enterprises (MNEs) associate closure and sell-off with various set of factors:

				<p>1) Closure: associated with parent company and greenfield entry mode.</p> <p>2) Sell-off: associated with acquisition entry mode and small resources exchange.</p>
<b>Mata &amp; Portugal (2000)</b>	1033	Entry strategies effect on exit mode.	Quantitative	There are several factors leading to particular termination mode choice. Such as, limited liability firms; majority-IJVs and WOS, and acquisition entry mode factors lead to sell-off of WOS/IJV. Opposite, greenfield entry mode; unlimited liability firms; big sized firms, and minority-IJVs lead to closure of WOS/IJV.
<b>Hennart, Roehl, &amp; Zeng (2002)</b>	32	Influence of Liability of Foreignness (LOF) on the exit of Japanese firms from United States market.	Qualitative	Less than half Japanese companies relate its exit from United States market with LOF.
<b>Reuer (2002)</b>	154	Host-country and parent firm factors explaining IJV closure and acquisition.	Quantitative	Acquisition: company has control over the enterprise, parent firm has access to capital in cultural similar country. Sell-off: big cultural distance, exploratory IJV, and benefits from sale.
<b>Meschi (2005)</b>	210	Political risk, age of IJV and IJV survival.	Quantitative	Unexpected local contingencies effect on IJV survival.
<b>Puck, Holtbrügge, &amp; Mohr (2009)</b>	94	Conversion of IJVs to WOSs in People Republic of China (PRC).	Quantitative	The effect on the conversion of IJVs to WOSs, in China, has such aspects as: acquisition of local knowledge; assets specificity; decline of external uncertainty; small cultural distance; high parent firm and IJV interdependence, and low level of government regulation.
<b>Nyuur &amp; Debrah (2014)</b>	92	Host-country factors influence on expansion and divestment.	Quantitative	Business environment of host countries influences on the expansion of MNEs in the countries. Particularly, enabling government regulations, good infrastructure and low cost (i.e. labor cost, taxes, utilities and other charges) effect on MNEs expansion. Opposite, ignorance of aforementioned factors leads to downsizing.
<b>Mata &amp; Portugal (2015)</b>	3697	What leads to closure and acquisition?	Quantitative	1) Closure: size of venture, specific assets, and greenfield entry mode.



				2) Acquisition: previous experience, and majority-IJV.
<b>Bichescu &amp; Raturi (2015)</b>	222	Plants closure and what influences on it.	Quantitative	Closure depends on firm's size, industry performance and age of capital.
<b>Ushijima &amp; Iritama (2015)</b>	749	Closure and sell-off in corporate restructuring.	Quantitative	The influence of closure and sell-off on parent companies. 1) Closure: profitability of parent firm improves after closure; divesting facilities are less profitable than non-divesting ones, and insufficient of divested subsidiaries. 2) Sell-off: profitability of parent firm stays unchanged after sell-off; profitability of subsidiaries does remained unchanged but investments increases, and separability and salability are high in divested subsidiaries.
<b>Trapczynski (2016)</b>	66 empirical studies	De-internalisation.	Literature review	Future research possibilities in case of divestment, reductions of operating modes and foreign market withdrawals.

It is also worth considering the fact that there are a large number of other scientific papers with a similar theme. However, when analyzing literature, the focus of those papers was either on IJV exit or country exit, or those papers cover the subject indirectly.

Such as previous studies related to the topic have shed light on various determinants which influence on termination mode. Chang and Singh (1999) used multiple case studies and analyzed 772 public corporations in United States. They investigated that termination mode choice depends on the entry mode. In the same vein, Mata and Portugal (2000) have been focused on entry and post-entry strategies. However, they had the bigger sample size (1033 IJVs).

Studies that discuss the determinants related to the target country were investigated in the beginning of 2000s. Hennart et al. (2002) conducted the study of 32 Japanese firms which terminated from United States market. The focus of the study was to describe the impact of target country determinants on this termination. Similarly, Reuer (2002) analyzed 154 IJVs and investigated the host country determinants as well as parent firm factors. Furthermore, Nyuur and Debrah (2014) also focused on host country level factors. They analyzed 92 international investments (i.e. IJVs and WOSs) that were

terminated from sub-Saharan African region and investigated the role of host country factors, namely, government regulations, cost factors and infrastructure in these terminations.

Studies related to the closure and sell-off comparison were conducted fairly recently and shed light on the various determinants influencing on the aforementioned termination modes. Mata and Portugal (2015) conducted a theoretical study with the main focus on the reasons leading to sell-offs and closures. They investigated 3697 Portuguese newly formed JV. In addition, they studied the aspects inherent to closure and sell-off as well as pointed out its different influences. In the same vein, Ushijimaa and Iriyama (2015) conducted the study with the focus on sell-off and closure differences. However, unlike Mata and Portugal (2015), Ushijimaa and Iriyama (2015) investigated above-mentioned termination modes because of restructuring of the parent firm company. The determinants effecting on the closure were precisely studied by Bichescu and Raturi (2015). The authors focused on the reasons of closure and effect of closure on the ex-employees, the parent firms and the industry in general.

### 1.5 Definitions of key terms

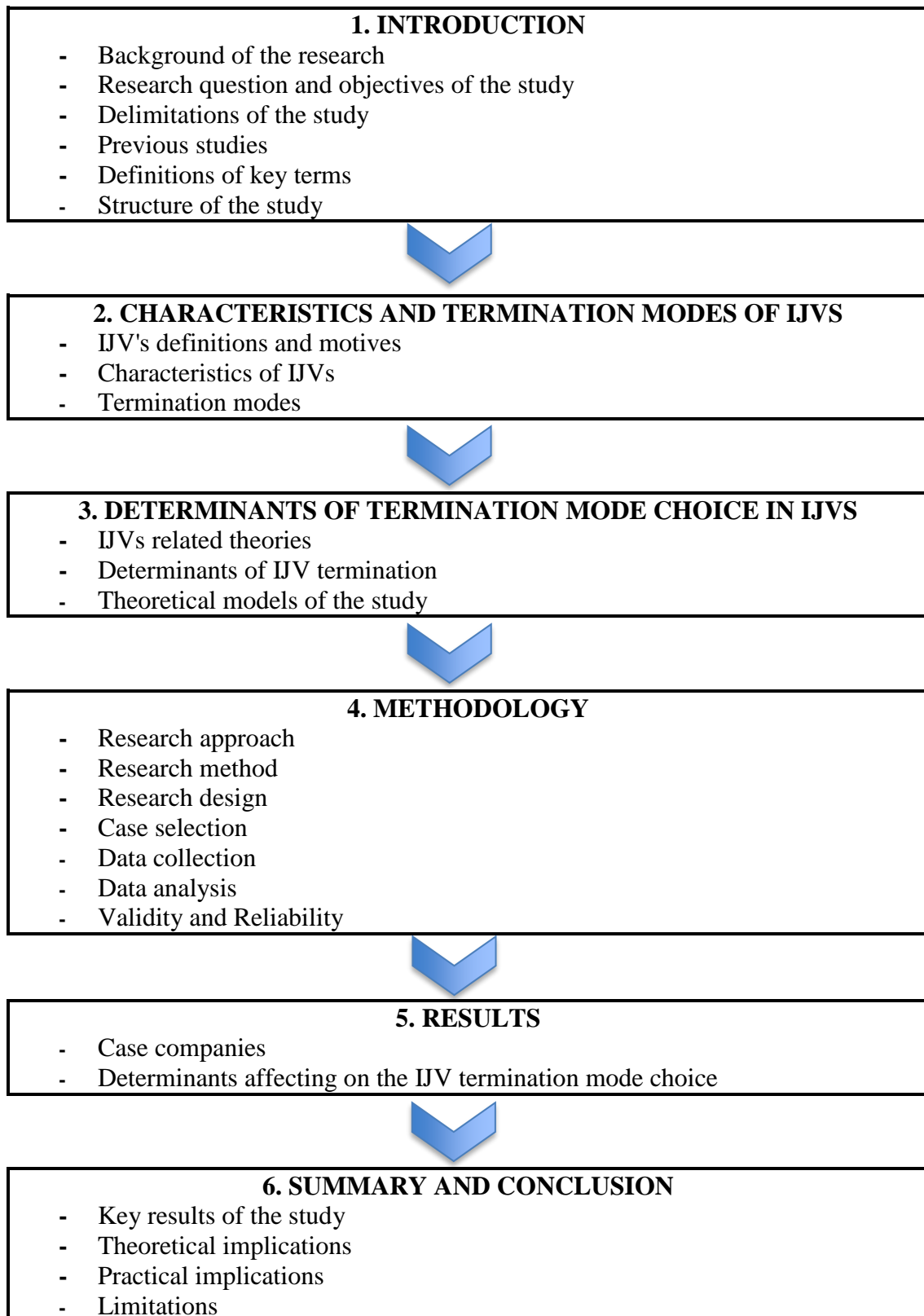
Main concepts studied in this research are foreign direct investment (FDI), international joint venture (IJV), termination mode, sell-off, liquidation, acquisition and de-internalization. In the following, definitions of these key concepts are given:

**Table 2.** Definition of key terms

Key concepts	Definitions	Sources
Foreign direct investment (FDI)	FDI is the investments in the 11-90% range in an already existing (acquisition) or in a new (greenfield) company, where management, marketing and control over the enterprise depends on the number of shares in the company.	(Luostarinen & Welch 1990: 156-158)
International joint ventures (IJV)	“A form of association between two or more individuals or businesses to accomplish certain business objectives. The true joint venture consists of three essential elements: a separate legal entity; joint ownership of the legal entity by the joint venture partners; and joint management by the partners of the separate legal entity.”	(Webster 1989)
Termination mode	The method of cessation of cooperation between two or more partners including sell-off, closure (liquidation) and	(Meschi &

	acquisition (buy-out). First two termination modes reflect the failure of the foreign firms' investment, while the latter method reflects the success.	Wassmer 2013)
Liquidation	The process of closing business involving complete cessation of work of a company/IJV as well as realizing of assets.	(Mata & Portugal 2015)
Sell-off	Deliverance from a part of the business by selling to the former partner or a third party with the purpose of getting profits, debt reduction, business re-organization etc.	(Nadolska & Barkema 2007)
Acquisition	The process opposite to sell-off when one partner buys-out IJV equity of the other partner, thereby becoming the sole owner of the venture.	(Mata & Portugal 2015)
De-internalization	Negative evolution of international operations as well as inherent part of the corporate life cycle involving divestments, pulling-out of a market, downsizing foreign operations, and/or switching from high to low commitment modes of operation	(Trapczynski 2016)

## 1.6 Structure of the thesis



This thesis is organized into following five chapters. The **first chapter** describes the background of study as well as presents the research problem and delimitations of study. Previous studies are shortly viewed and further structure of the study is presented.

The **second chapter** aims to be theoretical chapter. The chapter unfolds with definitions of the IJVs and further describes the motives as well as the characteristics of the IJVs. Further, the terminations modes of the IJVs are also described.

The **third chapter** opens up with the discussion of prior theories related to IJV termination. Further, different determinants of IJV termination are discussed. Finally the chapter ends with the theoretical model of the study.

**Chapter four** discusses the chosen method of data analysis in details and explains the choice of case companies.

**Chapter five** describes results of the study and explains sample companies situations and characteristics.

**Sixth chapter** discusses the contribution of the study as well as provides both theoretical and practical implications.

## **2 CHARACTERISTICS AND TERMINATION MODES OF THE INTERNATIONAL JOINT VENTURES (IJVS)**

*This chapter begins with the IJV definitions. Further on, the motives of IJV such as resource seeking, efficiency seeking, market seeking and strategic asset seeking are explained. Then, the characteristics of IJV are identified by providing the differences between minority, equal and majority IJVs. Finally, three main types of termination modes of IJV; namely, sell-off, acquisition and closure are discussed in detail.*

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### **2.1 Definition and motives of international joint ventures**

The concept of international joint ventures (IJV) is not new as it has been an important research topic since 1950s (e.g. Benoit 1959; Heimbucher 1961). However, there is no clearly accepted definition of IJVs. They can be interpreted differently, and the interpretation of IJVs depends on the background of the researchers. Different definitions of the IJVs are given below in this chapter. Despite the intensive research on IJVs, researchers have recently started focusing on the IJV termination. The main research on IJV termination started at the end of the 20<sup>th</sup> century and the main scholars are: Chang and Singh (1999), Mata and Portugal (2000), and Hennart, Roehl and Zeng (2002).

IJVs can be classified in two main types: joint contractual ventures and joint equity ventures (Luostarinen & Welch 1990: 158). In joint contractual ventures, companies aim to get the cooperation with each other without involving of equity aspect. Companies do not have buyer-seller relationship and the cooperation is usually of limited time. However, in joint equity ventures, companies always aim to get profits, and share risks and equity between each other. Both partners are in charge of the management process with the main goal to get extra profits. The type of JV, where companies use joint contractual ventures and joint equity ventures together, is called mixed JVs (Luostarinen & Welch, 1990: 158-159). In recent time, mostly companies use this type of JV. Therefore, the term IJV will mean mixed JV further in the text.

In the same vein, Root (1982: 7-8) describes the IJV as the operation of an international company in the foreign market with any type of production ownership there. He also

states that production may be the manufacturing of parts of product or the whole product. The specification on IJV is the fact that the responsibility and ownership is shared between partners. The author also emphasizes the importance of presence of the local firm in the IJV (Root 1982: 7-8).

Similarly, Welch, Benito and Petersen (2007: 330-332) point out the importance of local knowledge and networks of target country partner. In addition, they argue that the state support of international companies also has a direct impact on the survival, development and progress of IJVs. Further, they mention that companies inherently change their entry modes to penetrate into the target countries. For example, it may happen that the company first enters the target country with IJV, and later on switches to another entry mode. This can be WOS, franchising, export, or etc. (Welch et al. 2007: 330-332).

The concept of IJV is not new and exists for the long time. Even despite of this fact, there is no single, strict and concrete definition of IJV. Therefore, several researchers have defined the IJV differently. Shenkar and Zeira (1987) defined IJV as *“A separate legal organizational entity representing the partial holdings of two or more parent firms, in which the headquarters of at least one is located outside the country of operation of the joint venture. This entity is subject to the joint control of its parent firms, each of which is economically and legally independent of the other.”* Further, Schuler, Jackson and Luo (2003) have its own point of view and define the IJVs as *“International joint ventures (IJVs) are legally and economically separate organizational entities created by two or more parent organizations that collectively invest financial as well as other resources to pursue certain objectives. Although an overwhelming majority of IJVs involve only two parent firm (one from a foreign country and the other from the home country), some ventures may consist of multiple participants.”*

While forming the IJVs, companies pursue different goals. According to Welch et al. (2007: 326), there are four basic motives of IJV formation (also known as FDI theory): resource seeking, market seeking, efficiency seeking and strategic asset seeking. Each motive is briefly described below.

### *Resource seeking*

Resource seeking IJV means that foreign firms form IJV in target countries to get access to natural and human resources (Dunning & Lundan 2008). Lack of such resources in the home country, inflated price of these resources in home country or the need for specific resources for production compel the foreign firms to form IJVs in the target countries where these resources are available (Dunning 1998). Dunning and Lundan (2008) further explain that resource seeking IJVs occurs due to two main reasons: 1) to access physical resources, and 2) to access cheap labor force. Physical resources mean resources such as mineral fuels, agricultural products, industrial minerals and metals. Manufacturing companies usually aim to get access to those physical resources at lower cost. Cheap labor means that many manufacturing firms from developed countries invest in other countries where labor cost is low (Dunning 1998). For example, in order to access cheap labor, many developed countries firms form IJVs in low labor cost countries such as South, East and Southeast Asian countries as well as in Eastern European countries (Dunning 1998; Dunning & Lundan 2008).

### *Market seeking*

Market seeking IJVs mean that firms form IJVs to protect and develop their competitive position in the target countries (Welch et al. 2007: 325-330). At the same time, the goal of IJV is to ensure the local production and distribution in the target country instead of exporting to the target country (Dunning 1989). Sometimes increased export barriers (taxes, regulations, etc.) also motivate the firms to form market seeking IJV in the target country (Dunning & Lundan 2008).

Dunning and Lundan (2008) further elaborates the four main motives of market seeking IJVs. Firstly, movement of clients, business partners and/or suppliers to international markets may provoke firms to follow them. This motivates the firms to invest and form IJVs in countries where clients, business partners and/or suppliers move (Root 1982: 8-15). Secondly, market seeking IJVs are also formed in order to adapt the products according to the customers' preferences in the target country. In other words, the adjustment of products based on the various aspects of the target country (e.g. cultural differences, customs, consumption preferences etc.) motivates firms to form IJVs in the



target country (Dunning & Lundan 2008). Thirdly, decrease of transportation and production costs are also important reason for forming market seeking IJVs. Due to the reduction in aforementioned costs, firms may want to establish physical presence in the attractive target country instead of exporting to the target country. This act especially helps companies which are located far from the target countries (Dunning 1998). As it was already stated before, the desire of physical presence closer to the target market also leads to market seeking IJVs. Thus, the simplification of implementation becomes possible (Dunning & Lundan 2008).

#### *Efficiency seeking*

Efficiency seeking IJVs are focused on the access of financial resources in the target country (Makino, Chan, Isobe & Beamish 2007). Diversification of risk as well as economies of scale and scope is inherent to efficiency seeking IJVs (Dunning 1998). It was also noticed that the companies seeking for the efficiency in IJVs are usually big sized and have previous international experience. Moreover, there are two main aspects of efficiency seeking IJVs. First one is the separation of value adding activities and labor intensive activities. Firms usually allocate labor intensive activities in developing countries to access cheap labor, and allocate value adding activities in developed countries to access capital, technology and information. Firms gain economies of scale and scope due to the separation of activities and locating in those countries where it is beneficial to have those activities (Dunning & Lundan 2008).

#### *Strategic asset seeking*

Strategic assets seeking IJVs aim to access the assets of the target country's companies, especially its competitive resources (Dunning & Lundan 2008). For instance, foreign firms may want to get know-how, technologies or different sort of expertise from the companies of the target country (Dunning 1998). Strategic asset seeking IJVs improve the strategic and competitive position of the firm in the target market (Dunning & Lundan 2008). According to Makino et al. (2007) strategic asset seeking IJVs are short-lived and are terminated once required assets are gained. Dunning and Lundan (2008) also assume that strategic asset seeking IJVs have a positive influence on the possible future operations of the firm in the target country. In other words, authors state that

strategic asset seeking IJVs are good start for international enterprises. Dunning and Lundan (2008) further point out that, efficiency seeking IJVs create business networks in the target country such as cooperation with suppliers, finding partners, and access to distributors that gives success to firms in the target country (Dunning & Lundan 2008).

Despite the four motives of IJV formation, firms usually use the *combination of these motives* in practice to gain success in the target country. However, Welch et al. (2007: 326) state that the mix of motive categories is the most risky and costly as well.

## 2.2 Characteristics of international joint ventures

IJV is the part of foreign direct investment (FDI). According to Welch et al. (2007: 320-321), there are two types of FDI. First type is wholly owned subsidiaries (WOS). In WOSs, foreign firms invest in the target country and take the whole risks. In addition, the amount of their ownership is greater than 90 percent. Second type is IJV. The percentage of the ownership in IJVs ranges between 11 and 90 percent (Welch et al. 2007: 320-321; Luostarinen & Welch 1990: 158). Further, based on the level of ownership in IJVs, there are three different types of IJVs: minority IJV, equal IJV and majority IJV (Luostarinen & Welch 1990: 158). All of these types are briefly described below.

### *Minority IJV*

In minority IJVs, the ownership of foreign firm ranges from 11-49 percent (Root 1982: 146-147). There are a couple of characteristics which should be mentioned in case of minority IJVs. First of all, in terms of relationship between partners, minority IJVs (and the majority one as well) are less complex than equal IJVs due to the fact that the level of involvement of partners is less (Makino & Beamish 1998). The partners usually focus on their own spheres and let each other to focus on the spheres where they have more experience. For example, in IJVs in emerging markets, local partner focuses on bringing local market knowledge and human assets, while foreign firm focuses on bringing R&D and processes of the production (Choi & Beamish 2004). Secondly, in terms of level of dependence between IJV partners, the partner with lower ownership has less dependence on the other partner in minority IJVs. However, the absence of high

dependence of minority IJV makes the inter-partner cooperation easy (Schreiner 2009). Therefore, due to above mentioned two reasons, it can be argued that the complexity of the minor IJV is not so high and they can be managed with ease as compare to the equal JVs.

#### *Equal IJV*

IJVs are called equal when both partners have 50 percent share in the IJV (Welch et al. 2007: 321). As stated above, equal IJVs are more complex than minority or majority IJVs. In equal IJVs, the need of intensive consultation, communication and cooperation between IJV partners is higher. Partner companies are required to discuss almost each issue with each other as decisions have to be approved by both partners and that increases slowness and complexity of the decision making process (Li, Zhou & Zajac 2009; Piaskowska, Nadolska & Barkema 2017). Further, while the interdependence between partner firms is rather high in equal IJV, however the quality of relationship between IJV partners may not be high. High stakes or high interdependencies between IJVs along with equal decision making in IJVs can complicate the inter-partner relationships and there can be many conflicts between IJV partners. Overall, the need of joint decision making, intensive communication, and better inter-partner relationship is higher in equal IJVs as compare to minority or majority IJV (Blodgett 1992). However, at the same time, the level of parent firm' control in IJVs is not low. As, both partners equally invest in equal IJVs, therefore both partners cooperate more in equal IJVs as compare to minority IJVs (Piaskowska et al. 2017). However, higher level of interdependence between IJV partners and equal decision making power makes the equal IJVs more complex to manage.

#### *Majority IJV*

In majority IJVs, the ownership of foreign firm ranges from 51-90 percent (Luostarinen & Welch 1990: 158). Majority IJVs have very similar situation to minority IJVs in terms of cooperation between partners. As in minority as well as majority IJVs, partners separate the work responsibilities in advance and work on the spheres where they have more experience, knowledge, and practice (Makino & Beamish 1998). Further, in terms of interdependence between partners, both partners do not have equal level of

dependence on each other and that makes the relationship easy to manage (Piaskowska et al. 2017). In the same vein, the partner with majority ownership invests more resources and also has access to the other partner's resources. Therefore partner with majority ownership has more control in the management of the IJV (Pattnaik & Li 2014). Child (2002) suggests that because the partner with majority ownership usually invests unique technologies or technology processes, therefore it is obvious that partner with majority ownership would like to have supervision, control and a part in the production process. Since the inter-partner dependence in IJVs is not equal, therefore the partner with majority ownership has high dependence on the other partner. Thus, majority IJVs have high complexity.

In conclusion, prior literature suggests lowest complexity in minority JV due to the less dependence of the minority IJV partner. Equal IJVs have the highest complexity as both partners have equal dependence. And finally, the majority IJVs has pretty high complexity but lower as compared to the equal IJVs.

### 2.3 Termination modes of the international joint ventures

Companies form IJVs to achieve several goals like to earn profits, access new markets and resources. However, at some stage of the IJV, partners may not like to continue IJV cooperation and may demand the termination of the IJV. The termination of IJV may be the result of the failure of inter-partner collaboration and may happen rapidly and suddenly (Meschi & Wassmer 2013). Termination of IJV may also be due to the fact that one partner wants to have the full control of the IJV and therefore buys the remaining IJV ownership of the other partner (Kogut 1991). However, prior research has mainly aggregated the termination modes and therefore has not focused on the different termination modes of the IJVs. However, some researchers (e.g. Park & Ungson 1997; Kogut 1989; Nemeth & Nippa 2013) have identified three different types of IJV termination: closure, sell-off and acquisition. In the following, these termination modes are discussed in detail.

### 2.3.1 Closure

With the rapidly changing trends of the modern world, companies need to remain constantly competitive. One way to stay afloat is to shut down unprofitable enterprises (i.e. closure). In closure, companies basically focus on simplifying the organization planning and maximizing the revenues while reducing the costs (Bichescu & Raturi 2015). IJV scholars have different views about the IJV closure. Polidoro, Ahuja and Mitchell (2011) consider IJV closure as failure of the IJV. They argue that companies usually do not dissolve profitable IJVs and closure occurs due to the financial incapacity of the company.

At the same time, Kogut (1989) points out that business failure or inter-partners conflicts or sometimes both factors cause IJV closure. Ahuja, Polidoro and Mitchell (2009) mention that one of the reasons for the closure of IJVs may be the requirement of antimonopoly policy. Closure may also happen due to the fact that IJV has reached the set goals and there is no longer any need of both partners to continue the IJV relationship. Another reason of IJV closure may be an unhealthy desire of a company to compete with its IJV partner. This desire may obscure all of the benefits of partnership and interrupt the cooperation (Kogut 1989; Park & Ungson 1997).

When deciding to close the IJV, companies should be aware of the possible consequences of this decision. In those IJVs, where local partner is state-owned company has great support of the government, the closure of IJV cooperation may turn into a politically tense situation. Subsequently, development depends on the initiator of termination. In the situation where the initiator is local company, the possibility of harsh retaliatory measures is not so great. However, if the foreign company is the initiator of IJV termination, then the local partner can take retaliatory measures against the foreign partner (Lane & Beamish 1990).

Although companies close IJVs to minimize expenses and increase profits, however there is also the flip side of the coin. According to Bichescu and Raturi (2015), minimizing expenses and increasing profits due to IJV closure are temporary. They mention that companies will experience problems even after the closure of the IJVs. Usually, firms closing their IJVs have deeper problems and closure does not solve all of

their problems (Bichescu & Raturi 2015). However, it is worth mentioning here that IJV closure is not possible for all companies. Bichescu and Raturi (2015) argue that companies who produce products like mineral water and cement are unlikely to be closed. At the same time, those IJVs that have a highly specialized business network or have low content of value per unit of product, closure is unlikely.

### 2.3.2 Sell-off

Another type of IJV termination is sell-off. In sell-off one firm sells its stakes to the other IJV partner or to a third party (Reuer 2002). According to Meschi and Wassmer (2013), unsuccessful IJV operation in the target market can be a reason for sell-off or a part of IJV. However, there are other reasons that affect the choice of sell-off termination mode of the IJV. One reason is the desirability of one IJV partner to get profits immediately as quick profitability may be the original objective of the partner to enter into IJV relationship. Usually firms with such objective sell-off their IJV stakes when the stocks of IJV are attractive in terms of price. In conclusion, when the IJV operation is going very well, one of the partners may decide not to take risks and sell their IJV stakes when stock price of IJV is at the peak (Nadolska & Barkema 2007).

Another important reason of choosing sell-off termination mode is the importance of the IJV for the parent firm. If the IJV does not occupy an important place in business networks, resources supply and provision of human assets to the parent company, then parent firm's desire to sell such an IJV will be high. Oppositely, when the importance of IJV in the network of the parent company is maximum, then the desire to sell-off the IJV stakes will very less (Ushijima & Iriyama 2015).

### 2.3.3 Acquisition

When entering the international market for the first time, some companies tend to purchase already existing facilities in the target country. This method of penetration in target country is called acquisition (Welch et al. 2007: 332-333). However, sometimes firms first form the IJV while entering into the target country and overtime acquire the IJV ownership stake of the partner firm and convert the IJV into the acquisition wholly

owned subsidiary. Therefore, firms can also terminate the IJV by means of IJV acquisition.

Unlike the closure and sell-off, the acquisition is not the result of the failure of one or both partners. Acquisition reflects the satisfaction of the parent firm with the IJV and therefore the satisfied partner desires to get full control of the successful IJV by acquiring it. Therefore, when IJV is performing well and partner firms are satisfied with the performance of the IJV, then acquisition of the IJV by one partner is very likely (Park & Ungson 1997).

### **3 DETERMINANTS OF TERMINATION MODE CHOICE IN INTERNATIONAL JOINT VENTURES**

*The following chapter discusses the determinants of IJV termination mode choice. The chapter begins with the discussion of theories and concepts related to IJV formation and termination. Then, the firm level, IJV level, inter-partner level and host country level determinants of IJV termination mode choice are discussed in detail. The chapter ends with the theoretical framework of the present study.*

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#### **3.1 Theoretical foundation of IJV termination**

Searching for an adequate theoretical foundation to study the IJV termination requires screening the existing IJV termination literature. Most previous IJV termination studies do not clearly classify their findings within a specific theoretical framework. Instead mostly prior IJV termination studies build their models by generally applying some concepts and theories such as de-internationalization decision model (e.g. Reiljan 2004), liability of foreignness concept (e.g. Hennart et al. 2002), transaction cost theory (Puck, Holtbrügge & Mohr 2009), divestment theory, and eclectic paradigm (e.g. Nyuur & Debrah 2014). In the following, these concepts and theories related to IJV termination are discussed.

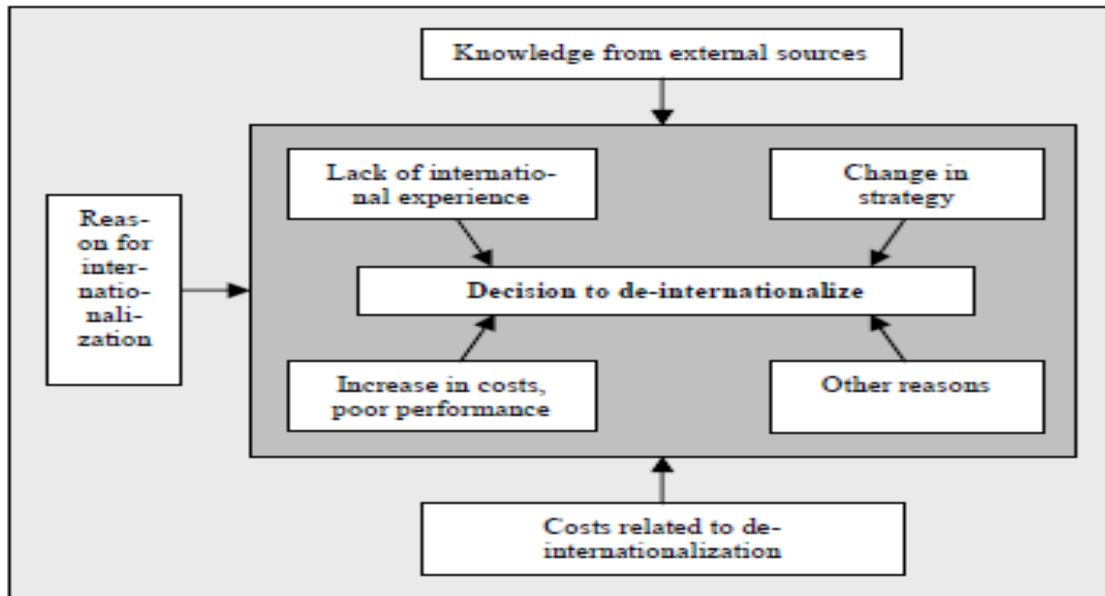
##### *De-internationalization decision model*

The term de-internationalization was first introduced by Welch and Luostarinen (1988: 37). They argued that “*once a firm has embarked on the process [of internationalization], there is no inevitability about its continuance*”. They imply the idea that internationalization might not be continued forever, resulting in de-internationalization.

Reiljan (2004) is one of the earlier studies that identify four main factors due to which firms decide to de-internationalize. The four factors that force firms to de-internationalize are: 1) lack of international experience, 2) change in strategy caused by a change of foreign owner’s intention or modification of strategy in the gradual development of international market, 3) increase in costs or poor performance originated by the increase of competition or increase in production costs, and 4) other



reasons that includes external shocks. At the same time, three factors shown on a white background explain the process of penetration of an international market firm.

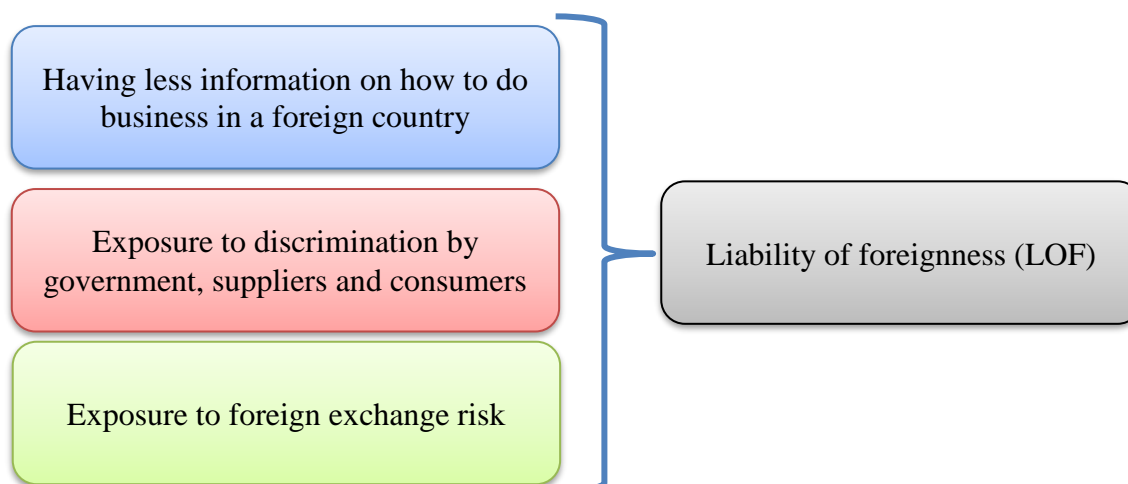


**Figure 1.** Framework for analyzing de-internationalization decisions (Reiljan 2004).

However, this model has an important shortcoming. Model does not link the factors of termination and actual termination mode. In other words, Reiljan (2004) shows the factors which may influence on the termination of the cooperation or de-internationalization, nevertheless, she does not show that what happens next and how companies may solve this issue. Summing up this model, Reiljan (2004) highlights the importance of the factors that cause termination. However, model does not specifically link these factors with the termination or de-internationalization modes (Reiljan 2004).

#### *Liability of foreignness*

Second concept which helps to understand the IJV termination is the *Liability of foreignness (LOF)*. This concept was first defined in the work of Zaheer and Mosakowski (1997). LOF means that foreign companies are at disadvantage compared to native companies when they enter into the target country. Hennart et al. (2002) further develops this concept and identifies three factors that cause LOF: 1) lack of information about target country; 2) discrimination by the government, suppliers and consumers, and 3) currency risk (see Figure 2).

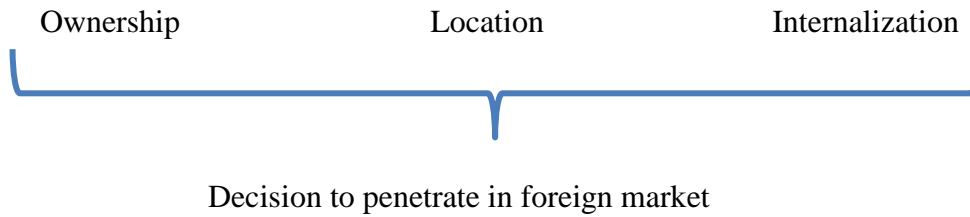


**Figure 2.** Liability of Foreignness (Adopted and modified from Hennart et al. 2002).

Overall the concept of LOF explains that foreign firms are at disadvantage as compared to native firms when they enter target markets due to the above mentioned three factors and that cause IJV termination (Hennart et al. 2002). However, this concept should be further linked with the IJV termination mode choice.

*Divestment theory (inverse of OLI paradigm)*

Some researchers have used divestment theory to explain the IJV termination (e.g. Nyuur & Debrah 2014). Divestment theory is developed by Boddewyn (1983). In his article, Boddewyn assumed that foreign divestment (i.e. foreign investment termination) is the reverse of OLI paradigm. The OLI paradigm is a dominant analytical framework to study the foreign direct investment (FDI) decisions of multinational enterprises. The theory suggests that foreign firms have ownership advantages (i.e. O advantages) that they exploit in countries that have attractive locational advantages (i.e. L advantages) via internalization (i.e. I advantages) (Nyuur & Debrah 2014). See below figure 3 for the elements of OLI paradigm.



**Figure 3.** OLI framework (adopted from Nyuur & Debrah 2014).

Therefore, divestment theory developed by Boddewyn (1983) suggests that foreign divestment in a firm can be predicted when a firm:

- 1) Ceases to possess net competitive advantage as compared to local firms in foreign market
- 2) Even if firm retains these advantages, the firm no longer finds it beneficial to use them itself (i.e. internalize them) but rather prefers to sell or rent them to other firms (i.e. externalization).
- 3) It is no longer lucrative to internalize its net competitive advantage in a particular host country.

Therefore, divestment theory generally provides an important platform to further investigate the internal and external factors that may lead to the foreign divestment. Nyuur and Debrah (2014) explored the changes in the business environment of the foreign locations (i.e. external factors) which trigger the divestment of foreign firms in Ghana. However, there is need of more studies who can analyze internal and external factors that cause divestment and particularly impact the choice of divestment (i.e. termination) mode.

#### *Cultural distance*

Cultural distance is another important concept which has been widely used to study the IJV termination (Benito 1997; Makino et al. 2007). Chen and Hu (2002) define the cultural distance as “*the difference in ... values and beliefs shared between home and host countries*”. Puck et al. (2009) suggests that a high cultural distance will increase the uncertainty and thus the transaction costs, therefore leads to IJV termination.

Many studies use the index of cultural distance which is developed by Kogut and Singh (1988). Nevertheless, the basis for determining the index is the study of Hofstede (1980: 39-65). This index determines the cultural difference between two countries (Figure 4).

$$\text{Cultural Distance}_{jk} = \frac{1}{4} \sum_{i=1}^4 [(I_{ij} - I_{ik})^2 / V_i],$$

**Figure 4.** Culture distance index (Kogut & Singh 1988; modified by Reuer 2002).

The *Culture Distance*  $_{jk}$  is the variable which identifies the culture distance between country  $j$  (foreign firm home country) and country  $k$  (target country).  $I_{ij}$  means the score of scale of  $i$  for the country  $j$ . While,  $I_{ik}$  stands for the score of scale  $i$  for the country  $k$ . Variable  $V_i$  reflects the sample depression of the scope  $i$ . The possibility of an error is also not excluded but it is correlated by other variables. Thus, this does not greatly affect the equation (Kogut & Singh 1988; Reuer 2002).

In conclusion, most studies use the index of cultural distance developed by Kogut and Singh (1988) and develop the arguments that high cultural distance leads to increased uncertainty and thus the higher transaction costs, therefore leads to IJV termination. In the following, the determinants of IJV termination are discussed.

### 3.2 Determinants of IJV termination

Even though there are different factors that influence the termination of the IJV, it is possible to classify them into four basic groups. According to Nemeth and Nippa (2013), four groups of IJV termination determinants are: 1) firm level factors, 2) IJV level factors, 3) inter-partner level factors, and 4) host country level factors. These groups and specific factors are briefly described below.

#### 3.2.1 Firm level factors

Firm level factors or determinants are basically the factors which are related to the foreign firm. Many authors such as Reuer (2002), Meschi (2005) Nemeth and Nippa (2013), and have identified various firm level factors that affect the IJV termination. In the following firm level factors are discussed in detail.

**Lack of parent firm support**

IJVs may receive necessary support from the parent firm which is needed for the successful implementation in the international market. The possibility of the survival of IJV is higher in the situation where parent firm shares its resources with the IJV. Similarly, if there are already existing patterns and business lines between foreign parent firm and IJV, then IJV survival chances will be high (Chang & Singh 1999). However, if the IJV does not receive significant support from parent firm, then there are more chances of IJV termination. Further, it is logical to assume that if the parent firm has provided enough support to the IJV, then parent firm would prefer to acquire the JV in future as giving support to the IJV means that IJV is important to the parent firm. In the same vein, it is logical to assume that if the IJV has received lack of parent firm support, then firm will dissolve or sell-off the IJV instead of acquiring the IJV as lack of support means that IJV was not so important for the parent firm.

**Un-related industry**

There is an important view that when IJV operates in a different industry from the parent firm, then the probability of IJV termination is much higher than when IJV operates in the same industry. In terms of termination mode, the probability of choosing sell-off IJV termination mode is high if the IJV operates in different industry from the industry of the parent firm. This decision is due to the fact that while operating in the same industry, parent firm can provide resources to the IJV and IJV is usually very important to the parent firm. The key factors, here, are the availability of resources, know-how, patents and technologies, which can be provided to IJV by the parent firm. However, while operating in different industries, parent firm cannot provide these resources, and therefore chances of terminating IJV through sell-off are greater (Stewart, Harris & Carleton 1984; Reuer 2002).

**Cash surplus**

The depth of financial resources also affects the choice of the IJV termination mode. According to Reuer (2002), if the parent firm has a large stock of financial assets, then sell-off of the IJV is not preferable. In such situations, the probability of expansion (i.e.

IJV acquisition) will be great. Similarly, if the parent firm does not have large financial assets, then the parent firm will be more committed to sell-off the IJV (Reurer 2002). Good example is of Australian firm, Ramsay Health Care. The firm acquired its JV in Asia when the profits increased to 80%. This acquisition of IJV took place at the time when the firm had falling debts and had sufficient cash flows (Welch et al. 2007: 351).

### **Poor financial performance of the firm**

Another factor which influences the IJV termination mode choice is financial health of one of the partners (Decker & Mellewig 2007). In the presence of large debts in home country, the IJV parent firm may decide that they can no longer afford to take part in the IJV, and therefore they are more likely to sell the IJV stakes. If there are serious financial problems of the parent firm, then the parent firm tries to sell-off the IJV stakes as soon as possible (Meschi 2005).

### **Previous acquisition experience**

Previous merger and acquisition (M&A) experience of the parent firm has also an important effect on the IJV termination mode choice. If the parent firm has previously participated in M & As, then the probability of IJV acquisition is higher than if the parent has no experience of M & As. Further, if the parent firm has no prior experience of M & A, then then parent firm will most likely sell-off the IJV. In conclusion, the parent firm is likely to acquire the IJV if it has the previous experience of acquisitions (Lyles & Salk 2007).

### **Size of the parent firm**

Size of the parent firm also impacts the IJV termination mode. Sell-off the IJV is more likely when the parent firm is small. IJVs of a small business (i.e. firm) are terminated more easily than the IJVs of a large business. This is all because bigger firms usually introduce better technologies and resources in their IJVs as compared to the small firms. Therefore there is higher probability that small firms sell-off the IJVs as compared to the big sized firms (Chang & Singh 1999).

**Size of the IJV**

IJV size is also an important factor that impacts the IJV termination mode choice. Sharma and Kesner (1996) especially highlight the importance of IJV size in explaining the IJV termination mode. They suggest that big sized IJV means that parent firm has invested many resources in the IJVs, therefore the probability of IJV sell-off will be greater when IJV size is bigger as compared to when the IJV size is small (Sharma & Kesner 1996).

**Strategy instability**

The change of firm strategy over time is also an important factor that explains the IJV termination. Cui, Roger and Griffith (2011) suggest that firms should not form IJVs when they do not have clear goals, objectives or clear strategy about the IJV. They further suggest that sometimes the parent firm's goals, objectives or strategies of IJV change over time and this leads to IJV termination. The similar assumption was stated by Panibratov and Brown (2018). The authors point out that termination may be seen as corporate diversification strategy. In such situation, there is greater probability that parent firm will close the IJV.

**Asset specificity**

Asset specificity is an important factor from transaction cost theory (TCT). TCT proposes that asset specificity impacts the IJV termination mode (Puck et al. 2009). According to TCT, firms invest specific assets in their IJVs and if the amount of specific assets in IJVs is large, then usually firms do not want to lose those specific assets or in other words firms do not want to sell-off those specific assets to partner firms. The main logic behind this argumentation is that firm's specific assets are the source of competitive advantage and therefore firms do not want to sell those specific assets to partner firms. Therefore, there is greater probability of IJV acquisition if the parent firm has invested highly specific assets in the IJV (Reuer 2001). However, Mata and Portugal (2015) and Chang and Singh (1999) argue that firms can also choose IJV closure instead of selling off its stakes to IJV partner when the firms have invested high specific assets in the IJV.

## **Business expansion**

The desire to expand business in a country, where business indicators are positive, also may affect the choice of IJV termination mode. Usually when firms enter into the target country for the first time, they do not know the exact demand of their products in the target country and therefore they form IJVs to test the demand of their products in the target country. However, over time when the demand of their products increases, firms desire to acquire their local IJV partner. In conclusion, firms use IJV to test the demand of their products in the target country and over time they acquire the IJV once demand of their products in the target country grows (Zaheer & Mosakowski 1997).

### **3.2.2 IJV level factors**

IJV factors mean factors related to the IJV characteristics. Welch et al. (2007: 332-333) suggest that when firms decide to form IJVs in the target country, they face at least two strategically important decisions: first, whether to buy partially an existing foreign entity (i.e. acquisition IJV) or second, to establish an IJV from scratch (i.e. Greenfield IJV) with the help of another local firm. Along with establishment mode choice of IJV, there are also some other characteristics of the IJV which impact the IJV termination mode choice. In the following, factors related to IJV characteristics are discussed in detail.

### **Acquisition and greenfield IJVs**

Dadzie, Larimo and Nguyen (2014) suggest that greenfield IJVs are formed when foreign firms have firm-specific advantages and the target country has location advantages. Therefore, it is logical to assume that foreign firms would not like to sell these firm specific resources to the IJV partner firm even when cooperation with IJV partner firm is finished. Therefore foreign firm will most likely closed down the IJV due to the great amount of firm-specific assets invested in the IJV. On the other hand, IJVs which have been partially acquired and which rely on intangible assets are likely to be sold-off rather than closed due to the high possibility to repack the IJV assets for another sell-off (Chang & Singh 1999). For example, Mata and Portugal (2000) found that acquisition IJVs are less likely to be closed down than are greenfield IJVs.



### **Premature goal achievement**

Moreover, when achieving the set IJV goals, companies may want to stop cooperation with the IJV partner. Such situation happens when the goals are met earlier than expected. In this case, IJV is successful for the partner who has achieved the goals. Taking into consideration the success of the IJV, the most relevant termination mode in this situation is sell-off. It also takes into account the fact that IJVs are terminated only when the preservation of cooperation is not considered as an option (Lunnan & Haugland 2008).

### **Contract specifications**

In addition, conditions prescribed in the contract should also be taken into consideration. Petersen, Welch and Welch (2000) emphasize that, in most cases, the target country partner prescribes an item in the contract that does not allow the foreign partner to withdraw from the IJV by the means of closure. Otherwise, the international partner will be obliged to pay compensation established in the agreement (Petersen et al. 2000). Therefore, it is logical to assume that foreign partner will sell-off or acquire the IJV in case if the local IJV partner binds the foreign partner for not closing the IJV.

### **Ownership structure**

The ownership structure of the IJV may also affect the choice of IJV termination mode. For example, in a situation where the company is a minor-IJV partner, the probability of acquisition is extremely less than the firm is majority IJV partner (Portugal & Mata 2000). Therefore, if the firm has majority ownership share in the IJV, then there is great probability of IJV acquisition, and on the other hand in case of minority ownership in IJV, firm will sell-off the IJV to partner firm (Mata & Portugal 2015). The overall logic of this hypothesis is that in majority owned IJVs, firms have greater contribution as compare to the minority owned IJVs.

#### **3.2.3 Inter-partner level factors**

Inter-partner related factors means hard and soft factors related to the inter-partner relationships. While forming IJV with local partner in the target country, the foreign

firm expects great cooperation from the local partner. However, their expectations are not always met and the internal-partner level factors often become the reason for severing the IJV relationship (Root 1982: 144-146). In the following, important inter-partner related factors are discussed in detail.

### **Trust**

Ali and Khalid (2017) define trust as willingness of a firm to rely on the IJV partner based on the positive expectations/beliefs of the partner's reliability, fairness and goodwill. Further, Ali and Larimo (2016) suggest that with such belief of partner's reliability, fairness and goodwill, the partner's opportunism becomes of less concern because the other side puts their efforts into achieving both firms' objectives in the IJV. However, if the partner is involved in dirty operation, such as steals resources from the IJV or does not fulfill its responsibilities, then there is distrust on that partner. This distrust negatively affects the IJV operations. Therefore, the deceived partner forces the deceiver partner to sell its ownership to the deceived partner. In the same way, when there is trust between partners, then the firm itself can sell-off its ownership to its partner but usually once IJV objectives are achieved (Zollo, Reuer & Singh 2002; Pajunen & Fang 2004). Therefore, when there is trust between IJV partners, the firm can use sell-off its IJV stakes to the IJV partner.

### **Control**

Control is an important inter-partner related factor in IJVs. In IJVs, control is defined as the monitoring of various activities of the IJV (Chen, Park & Newburry 2009). Nguyen, Larimo and Ali (2016) suggest that ownership position in IJVs, namely minority, equal and majority ownership specify the degree of strategic control in IJVs. The partner which has majority ownership in the IJV has greater decision making or strategic control in the IJV. Gomes-Casseres (1987) suggest that if the firm has significant control in the IJV, then the firm will be interested in continuing the work and, vice versa the lowered control in the IJV may prompt the company to terminate the IJV. They further suggest that low control in IJV may motivate the firm to sell its stakes to the IJV partner as less control means the firm does not have decision making power in the IJV.

### **Co-opetition**

Co-operation is another factor that impacts the IJV termination mode choice. If the local IJV partner is the direct competitor of the foreign firm in the target country, then there is greater threat of opportunism from the local partner and therefore foreign firm would prefer to acquire the IJV or close down instead of selling its stake to the local IJV partner (Park & Ungson 1997).

### **Unmet expectations**

Unmet expectations mean that the partners expect from the partner an active participation in the progress and success of the IJV, but such expectations are not fulfilled. Unmet expectations of partner are common in IJVs. Ito (2009) gives the example of the Japanese firms. Japanese firms formed IJVs with Taiwanese firms in China with the expectations that the latter already have a business network, and will actively cooperate with their Japanese colleagues in the IJV. However, those expectations were not met and IJVs were dissolved. Therefore, it is logical to assume that unmet expectation of the firm will lead to the IJV closure.

### **Parents' different financial situation (i.e. poor financial position of other IJV partner)**

The financial position of both IJV partner is another important factor that impacts the IJV termination mode choice. If one of the partners suffers the financial failures and the other one is a profitable firm, then the firm with weak financial position will negatively affect the operations of the IJV. Alcantara and Hoshino (2012) suggest that financial difficulties of one of the partner and better financial position of the other push the firms to terminate the IJV. However, it is logical to assume that firm with better financial position as compare to the other partner will acquire the IJV.

### **Inter-partner conflict**

Conflict is “*the perceived divergence of interest, or a belief that the (parties’) current aspirations cannot be achieved simultaneously*” (Pruitt & Rubin 1986: 4). Nguyen et al. (2016) that conflict is an important inter-partner factor in IJVs. Pajunen and Fang

(2004) mention that conflict because of misunderstanding of the partner firm, high level of its incompetence of one partner and cardinal difference in partners' goals is inherent in partnerships. Puck, Holtbrügge and Mohr (2009) further mention that cultural differences also cause conflict as because of large cultural differences between IJV partners, it is hard to understand each other actions, and according to Nguyen et al. (2016) conflicts cause poor IJV performance. Pajunen and Fang (2004) suggest that if there are inter-partner conflicts, then there is greater probability that one partner will acquire the IJV.

### **Acquisition of partner knowledge**

Puck et al. (2009) suggest that knowledge of the target country partner is one of the major reasons for forming the IJV in the target country. Local knowledge refers to a combination of knowledge of the market, the regulatory framework, the general economic conditions, the political situation and the business culture. However, over time foreign firm acquires the local knowledge, and therefore the need of the local partner to provide this knowledge is diminished. Therefore, foreign firm acquires the IJV. Therefore, acquisition of the IJV partner knowledge leads to the acquisition of the IJV.

### **Communication**

The lack of inter-partner communication is also an important factor in IJVs (Ali 2013) that impact the IJV termination. If both partners have lack of communication or when there is unwillingness to communicate, then the IJV enters into a certain process of stagnation. In such situation, one of the partners usually attempts to restore the communication, while the other partner avoids in every possible way. Pajunen and Fang (2004) propose that in the absence of appropriate level of communication between the partners, selling the IJV to the other partner is the only possible option to avoid grandiose and unnecessary losses.

#### **3.2.4 Host country level factors**

Host country level factors means the factors related to the target country. Dunning (1988) argued that foreign firms prefer those host countries that provide the best

location-specific advantages. In the following the location specific or host country level factors are discussed that may impact the IJV termination mode choice.

### **Cultural distance**

Cultural distance is another important factor which has been widely used to study the IJV termination (Benito 1997; Makino et al. 2007). Chen and Hu (2002) define the cultural distance as “*the difference in ... values and beliefs shared between home and host countries*”. Root (1982: 16-17) suggests that IJV is formed by firms when the cultural distance between home country of the firm and target country is quite high, and further Puck et al. (2009) suggest that a high cultural distance will also increase the inter-partner uncertainty and thus the transaction costs, and therefore leads to IJV termination. Reuer (2002) and Puck et al. (2009) more specifically suggest that if the cultural distance between home and host country is high, then the firm will sell-off the IJV and if the cultural distance is low, firm will acquire the IJV.

### **Political risk**

Political risk is another important host country factor that impacts the IJV termination mode choice. Political risk involves weak government of the target country, instable policies of the government of the host country regarding investment of foreign firms, and control of the government on the economy. Nielsen (2007) suggest that political instability is likely to have a negative impact on IJV performance because firms operating under such kinds of circumstances are more likely to incur additional transactional and information processing costs due to uncertainties surrounding the IJV. Reuer (2002) mentions that host country political instability provoke foreign firms to terminate IJVs and to leave a host country as quickly as possible. In such situation, IJV closure is the quickest method to leave the host country. In addition, it is worth mentioning that the aforementioned concept of liability of the foreigners (LOF) also emphasizes the subjective attitude of the government. In case of high political instability in host country, foreign firms may wish to leave the market because of high information processing costs (Hennart et al. 2002). Thus, high political instability causes the closure of the IJVs.

**Increased competition**

Makino et al. (2007) and Nyuur and Debrah (2014) suggest that increased competition in the target country is an important factor that impact the IJV termination. Kogut (1989) specifically points out that increased competition in the industry of the target country caused the IJV closure. One reason may be that if the competition in the target country is increased, then it would be very difficult for the IJV to maintain higher market share and therefore IJV would have poor financial position. And due to increased competition and resulting poor performance, future hopes to change the competition level would be less. Therefore firms may prefer to close IJV operations in the target country.

**Market size**

Another important target country factor is the market size of the target country. Wheeler and Moody (1992) argue that a large market size attracts FDI in the form of IJVs and WOSs in the target country as it gives an opportunity to the firms to earn higher profits. Stämpfli and Vladimirov (2017) suggest that in host countries with large market size, foreign firms initially form IJVs due to the lack of the target country knowledge. However, over time foreign firms acquire the IJV because they would like to serve the growing market of the host country. Reuer (2002) suggest that increased profits due to the large market size of the host country motivate the foreign firms to acquire their IJVs. However, if the market size of the target country is small, foreign firm would sell the IJV to the local market as future growth prospects for the foreign firm are less in the target country (Ravenscraft & Scherer 1991). Therefore, the large market size of the target country will increase the probability of IJV acquisition and small market size will lead to IJV-sell off.

**Increased labor cost**

Unexpected changes in the labor cost in the target country negatively affect the operations of the IJV. Increased labor cost means an increased cost of production and finally less profitability for the foreign firm. Nyuur and Debrah (2014) suggest that if the labor cost in the target country is increased, then foreign firms prefer to sell-off the

IJV as foreign firm will bear high manufacturing cost and less profitability and overall target country becomes less attractive for the foreign firm. Similarly, further reduction in labor cost in the target country would motivate the foreign firm to acquire the IJV.

### 3.3 Theoretical framework of the study

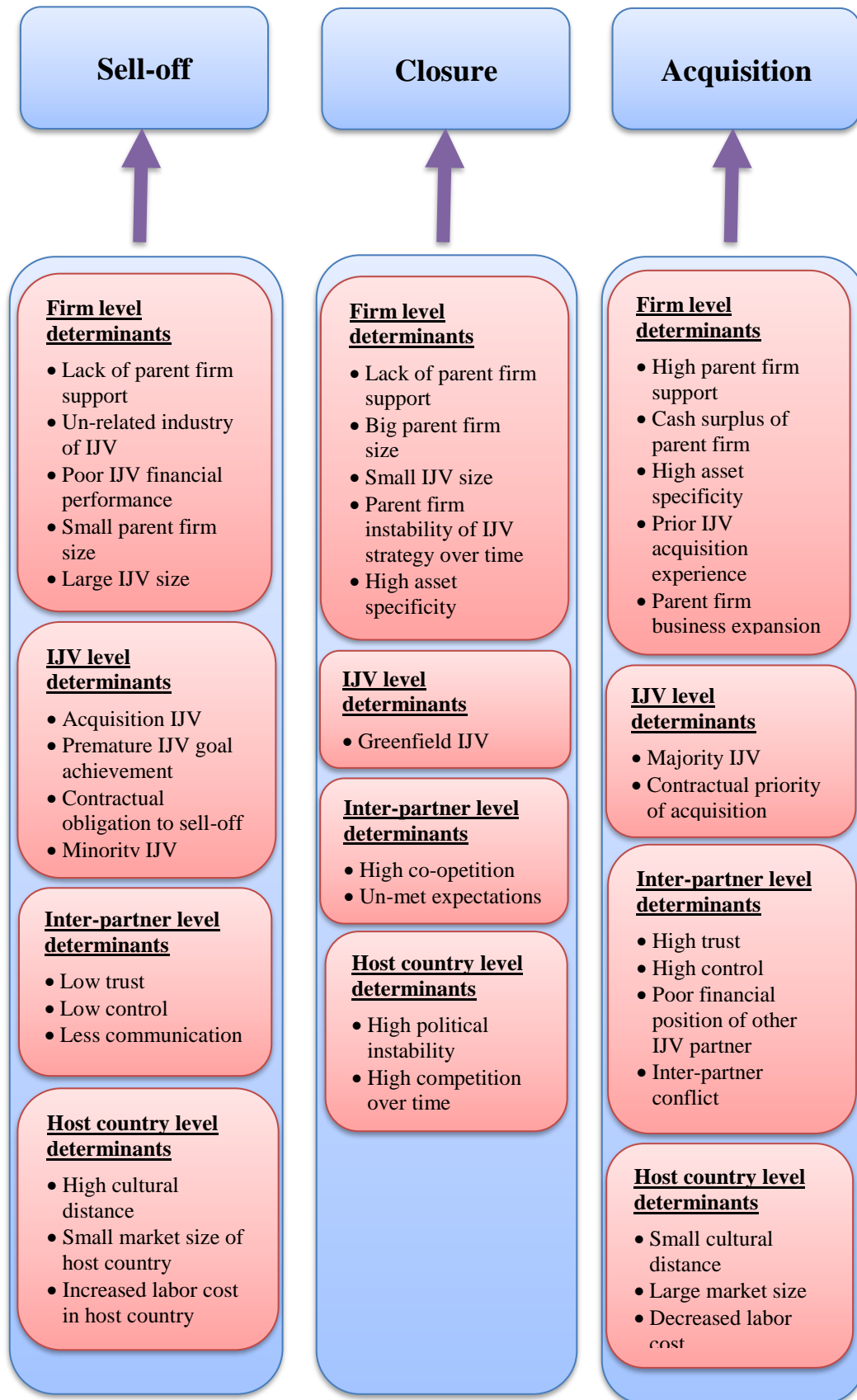
There are many determinants of IJV termination as the discussion in the previous section shows. However, not all of them lead to the same IJV termination mode. It should be taken into account that there are different factors that lead to different termination modes of the IJV. Based on the literature review, determinants of IJV termination mode choice are categorized into four different levels: 1) firm level determinants, 2) IJV level determinants, 3) inter-partner level determinants, and 4) host country level determinants. In the following, the impact of these factors on the choice of IJV termination mode (i.e. sell-off, closure, and acquisition) is discussed briefly.

Sell-off IJV termination means that the firm sells its stakes to the IJV partner or to a third firm. Based on prior literature, different levels of determinants of IJV sell-off termination mode are identified. There are: 1) five firm level determinants: lack of parent firm support, un-related industry of IJV, poor IJV financial performance, small parent firm size, and large IJV size, 2) four IJV related determinants: acquisition IJV, premature IJV goal achievement, contractual obligation to sell-off, and minority IJV, 3) three inter-partner related determinants: low trust, low control, and less communication, and 4) three host country related determinants: high cultural distance, small market size of host country (HC) , and increased labor cost of HC.

Closure IJV termination means that the both partner firms close down the IJV. Based on prior literature, different levels of determinants of IJV closure termination mode are identified. There are: 1) six firm level determinants: lack of parent firm support, big parent firm size, small IJV size, parent firm strategy instability, and high asset specificity, 2) one IJV related determinant: greenfield IJV, 3) two inter-partner related determinants: high co-opetition, and un-met expectations, and 4) two host country related determinants: high political instability and high competition over time.

Acquisition IJV termination means that the firm buys the stake of the other partner and thus continues the IJV's operation alone. Based on the prior literature, different levels of determinants of IJV acquisition termination mode are identified. There are: 1) five firm level determinants: high parent firm support, cash surplus of parent firm, high asset specificity, prior IJV acquisition experience, and parent firm's business expansion, 2) one IJV related determinant: majority IJV, 3) five inter-partner related determinants: high trust, high control, poor financial position of other IJV partner, inter-partner conflict, and acquisition of partner knowledge, and 4) three host country related determinants: small cultural distance, large market size, and decreased labor cost. Figure 5 shows the proposed linkages between determinants and IJV termination mode choice.





**Figure 5.** Theoretical framework of the study (own illustration, 2018).

## 4 METHODOLOGY

*In the following chapter, methodology of the study is discussed. First, the research approach and research method are explained. Then, the research design and chosen cases for the design are described. Further, data collection and data analysis are explained. The chapter ends with the discussion of validity and reliability of the study.*

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### 4.1 Research approach

Scientific research consists of two traditional approaches. On one hand is the inductive approach which starts from the observations, and the theories are formulated based on these observations (Saunders, Lewis & Thornhill 2012: 38). On the other hand, the deductive approach is based on a clear theoretical position in order to collect necessary data (Wilson 2014: 12).

The usage of the aforementioned approaches is also different. In inductive approach, first empirical data is collected and then based on the data analysis preposition are derived (Babbie 1989: 52-53). On the other hand in deductive approach, first theoretical framework is derived and then framework is tested based on the data analysis. The base for this study is the existing literature on the determinants of IJV termination mode choice. Therefore, the framework is developed based on existed literature and later qualitative data is collected to test the framework (Wilson 2014: 13-14).

The fact that deductive approach is built on existing theories and later developed framework is tested on data analysis, therefore, it produces reliable results (Babbie 1989: 52-53). The context of this thesis, the deductive approach is seemed appropriate due to the fact that the basis of the research contains various theoretical frameworks. Despite the fact that amount of literature on the determinants of IJV termination mode is very limited, the thesis still derived the theoretical model from the existing theories.

### 4.2 Research method

Scientists have always divided research methods into two groups: qualitative methods and quantitative methods. These methods allow researchers to explore various areas of interest from different perspectives. On one hand, quantitative research describes phenomena by measuring different variables and relationship between them (Wilson 2014:

14-16). On other hand, the qualitative research observes narrative data and aims to understand the phenomena. In addition, qualitative research provides non-standardized data that requires classification into categories (Ghauri & Grønhaug, 2005: 202-204). Wilson (2014: 16-17) describes qualitative research as the one which contains great descriptions, while quantitative research is less concentrated on that. In addition, it was mentioned that qualitative researchers resist the restrictions of everyday life and try to conduct a study directly, while quantitative researches often investigate the study indirectly and try to avoid everyday life world (Wilson 2014: 16-17).

Besides the fact that qualitative research includes close cooperation with a respondent, it also requires careful preparation in order not to produce anything useless. In addition, researchers conduct interviews, observe cases and analyze them (e.g. conversation analysis, content analysis and discourse analysis). It is also recommended to record interview (on paper or voice recorder) as this helps in the transcription which is necessary for the interview analysis (Denscombe 2010: 272-297).

In the context of this thesis, qualitative method is more appropriate due to the necessity of the discussion of determinants of termination mode choice in IJVs in wider context. In addition, the collection of qualitative data allows getting a better understanding of firm, IJV, inter-partnering and hosting country level factors in explaining the termination mode choice of IJVs. Moreover, as the primary data is collected through interviews.

#### 4.3 Research design

Ghauri and Grønhaug (2005: 56) defined the research design as “*the overall plan for relating the conceptual research problem to relevant and practicable empirical research*”. In addition the authors come up with the model which helps to gather and to analyze the collected empirical data (Ghauri & Grønhaug 2005: 57-60). Wilson (2014: 7-8) highlighted the fact that research design may include action research, archival analysis, case study, and etc. In the same vein, Yin (2003: 5) classified research design in five categories: experiment, survey, archival analysis, history and case study. The particular research design method should be used in accordance with the researcher’s aims and objectives (Yin 2003: 6-9).

When choosing the research design, it is also important to take into consideration the amount of theory in the research area. Ghauri and Grønhaug (2005: 115) state that when the theory is inadequate, the case study is the most relevant research design.

Case study can be classified by scope and by the number of units of analysis (see Table 3). There are two types of case studies based on the scope of the case design: single case studies and multiple case studies. Single case studies imply the collection of data from a single case (e.g. interview, observation, etc.). This kind of studies is usually in-depth and uses several unit of analysis. On other hand, the multiple case studies include more than one particular case and the conclusions are made on the basis of two or more cases. In addition, case study can be classified by the number of units of analysis: holistic analysis and embedded analysis. Holistic analysis consist only one unit of analysis which helps to set the boundaries for the research. Embedded analysis contains more than one unit of analysis and is more common than the holistic analysis (Yin 2003: 39-46; Wilson 2014: 121-123).

**Table 3.** Case study research design (adopted from Wilson 2014: 121).

		Case design - scope	
		Narrow	Broad
Analysis	Narrow	Holistic analysis in single case study	Holistic analysis in multiple case study
	Broad	Embedded analysis in single case study	Embedded analysis in multiple case study

For this study, the case study design has been chosen. This kind of research design is seems applicable due to the fact that it offers the best model to find the determinants of termination mode choice in IJVs. In addition to that, the embedded analysis in multiple case studies has been chosen as the phenomena exist in various cases. Moreover, several

units (liquidation, sell-off and acquisition) may be investigated in a better way in the several cases research.

#### 4.5 Cases

The following table presents the information about the companies which were interviewed for the thesis. The table provides the information about the names of the companies, names of interviewees and their titles, and the day and time of the interviews. Two companies which preferred to stay anonymous. Therefore, the names of these companies (Company X and Company Y) as well as the names of interviewees (Interviewee X and Interviewee Y) had been changed for confidentiality reasons.

**Table 4.** Cases (own illustration, 2018)

Company	Interviewee	Interview day and time
<b>Company X</b>	Name: Interviewee X Title: Sales manager	Finland, 17.05.2018 Time: 16:00-16:45
<b>Wärtsilä</b>	Name: Nyfors John Title: Joint Ventures Director	Finland, 24.05.2018 Time: 15:00-16:00
<b>Company Y</b>	Name: Interviewee Y Title: Accountant Manager	Finland, 25.05.2018 Time: 14:00-14:50

#### 4.6 Data Collection

Data collection involves the various ways of gathering empirical data. Wilson (2014: 25) states that data collection is “*the process of gathering ... data from often a wide range of sources*”. Data can be collected by various methods, such as interviews, observations, experiments or surveys. However, researchers have to choose the type of data collection based on the needs of the particular research problem (Ghauri & Grønhaug 2005: 108). In accordance with Ghauri and Grønhaug (2005: 91), data collection may include primary data collection as well as secondary data collection.

In the context of this thesis, both types of data is collected as they help to investigate the research problem comprehensively. Primary data is more focused on the research question of the thesis and allows analyzing the research problem in depth. Secondary data is also used in this thesis for describing the background information of case companies.

#### 4.6.1 Primary Data

Primary data is the one which is collected for the particular study and personally by researchers. This kind of data includes interviews, questionnaires, experiments, surveys and observations. Interviews are commonly used in business and management research. This type of primary data collection offers the opportunity to gather personal opinion of the respondents on the subject as well as an interviewee's interpretation of the researched problem. There are three possible tools to collect data from interviewees: face-to-face, telephone and focus group (Wilson 2014: 149-153).

For this research, interviews are considered as the best tool for the data collection because some of the required information can be gathered only by the way of personal conversation with the companies' representatives. Furthermore, one out of three interviews was conducted face-to-face, while two of the interviews were conducted by the means of electronic communication. Primary data allows answering the research question which determinants influence on the termination mode choice in IJVs.

#### 4.6.2 Secondary Data

Secondary data is the one which has been collected by other researchers. This kind of data is collected from various sources, such as annual reports, journals, magazines, promotion materials, company documentation, newspapers, and etc. (Wilson 2014: 187-189).

In current research, secondary data has been used in several chapters. Firstly, secondary data is used in the introduction chapter in form of academic journals, articles, and books. Secondly, the data has been used in chapter two and three in form of books, academic journals and doctoral theses. Moreover, secondary data is used for identifying interesting practical cases. They have been chosen through the analysis of annual reports and press releases. Further, secondary data has been used to write the background of case companies.

#### 4.6.3 Interview structure and operationalization

Interview structure varies in accordance with the required information. There are three main types of interviews: unstructured, semi-structured and structured. Structured interview includes structured questions with scales. Unstructured interview is the opposite of the structured one. This type of interviews involves high level of unobtrusiveness of the interviewer and the list of topics which should be discussed. However, the role of the researcher is to introduce the interested topics and to let the interviewee to explain ideas and thoughts about the topics. Semi-structured interview is the one in the middle of structured and unstructured interviews. This type of interviews includes questions prepared in advance as well as the opportunity to ask extra questions if it is needed (Denscombe 2010: 174-176).

For this thesis, semi-structured interviews are conducted. Firstly, this kind of interviews allows getting additional information which may bring new variables effecting on the termination mode choice. Secondly, semi-structured interview does not limit the answers of interviewees as there is space to think. Furthermore, the individuality of the answer increases in semi-structured interview due to the fact that there are no strict limitations in interviews.

Interview questions have been classified in different groups which explain the reasons behind them (see Table 5). The questions were sent to interviewees a several days before the interview so the respondents could better understand the questions. Thus, the author made sure that respondents were familiarized with the questions.

**Table 5.** Operationalization (own illustration, 2018)

Concepts	Interview Questions	Reason
Parent firm information	1-3	To know the basic information about the case companies and respondents.
IJV information	4-11	To get general understanding about IJVs which were later terminated.
Parent firm international experience	11-18	The questions were focused on the parent international activities as well as its previous international experience in the target country

Partner firm information	19-20	To get general understanding about the IJV partner.
IJV formation	21-26	To get information about IJV including the amount of employee, entry mode as well as IJV's main business line.
IJV performance satisfaction	27-32	To seek information about the interdependence between partners, and satisfaction with the partner firm and with the IJV performance.
Motives for IJV	33-34	Questions seek to understand the firm's motive to form IJV in other country as well as possible changes of those motives other the time.
Target country characteristics	35	To see confirmation about the target country characteristics (culture, market size, level of competition, labor cost) at IJV formation stage and at IJV termination stage.
Inter-partner relationship	36-38	The questions are linked to relationship between the parent firm and the case form during the operation of joint venture.

#### 4.7 Data analysis

Both qualitative and quantitative research methods require data analysis. It is very important to analyze the gathered data to draw conclusions. One of the main tasks of the qualitative data analysis is to categorize the gathered data according to various data characteristics (e.g. based on hypothesis, theories, concepts etc.) (Wilson 2014: 16-17, 25, 279-282).

Denscombe (2010: 239-240) defines five stages of qualitative data analysis: data preparation, initial exploration of the data, analysis of the data, presentation and display of the data, and validation of the data. Data preparation includes enumeration of text or visual data, and overwriting of the text. Initial exploration of the data involves identification of recurrent themes and leaving notes to the data in order to capture ideas. Analysis of the data includes the actions related to the coding process of data.



Presentation and display includes the explanation of findings, including visualization and illustration of empirical findings. Finally, validation of the data means the secondary verification of the gathered data and of the used methods (Denscombe 2010: 274-303).

As this research contains qualitative research method, the coding of interviews is required. The data is categorized in groups and compared. The categories are based on theoretical frameworks as well as on the concepts stated in the interviews. Thus, the author expects to find out the relationship between particular determinants and specific termination modes.

#### 4.8 Validity and Reliability

The concept of reliability takes into consideration stable and consistent results of a research. Reliability of a research also includes the concept of repeatability. In accordance with that, if later researcher repeats the same scales and measurements made by the previous researcher, he should get the same results as the previous researcher (Wilson 2014: 129). In the context of this thesis, there were three interviews conducted and all of them lasted approximately one hour. The interviewees had been working in the case companies for various amount of year and had background knowledge about IJVs and its termination in the target countries (Austria, Russia and Ukraine). Nevertheless, the analysis of the interviews is based on the subject evaluation by the interviewees. Further, the information is also subjectively interpreted by the author. In addition, the results are applicable for the aforementioned countries of former IJVs. Therefore, results can vary depending on company representative answers and on the different location of former IJV than above-mentioned.

In such qualitative studies like this, the validity of data is related to the fact that all of the parts of the research are aligned. Validity is concentrated on the appropriateness of the investigated data and its correct measurements (Denscombe 2010: 297-298). In accordance with Yin (2009: 40-41), there are two main methods of analyzing the quality of case study data, namely, internal (construct) validity and external validity. First, construct validity is “...*establishing correct operational measures for the concept being studies*” (Wilson 2014: 134). In other words, the selection of right measurements and

using of the relevant and pre-tested questions are common for internal validity (Wilson 2014: 133-134). However, as it was mentioned before, determinants of termination mode choice in IJVs is new and understudied topic which does not have comprehensive measurements yet. In current research, determinants have been distributed into different group factors to serve the aim of the study.

Secondly, external validity can be identified as “... *the extent to which the findings from your study can be generalized to other cases or settings*” (Wilson 2014: 134). In other words, external validity is related to the concept of generalization. Such as for positivist approaches, the aspect of generalizability is significant and, opposite, for interpretivist approaches, the aspect of individuality is important (Wilson 2014: 134). In the context of this thesis, individuality approach is preferable due to the aim to provide new insights based on three different case studies. In addition, current thesis can be the base for the future generalization by positivist researchers.

## 5 EMPIRICAL FINDINGS

*This chapter introduces the analysis of the collected empirical data. Empirical findings are presented case by case where the main concepts of the framework are discussed. Chapter ends with the discussion about the determinants of IJV termination mode choice.*

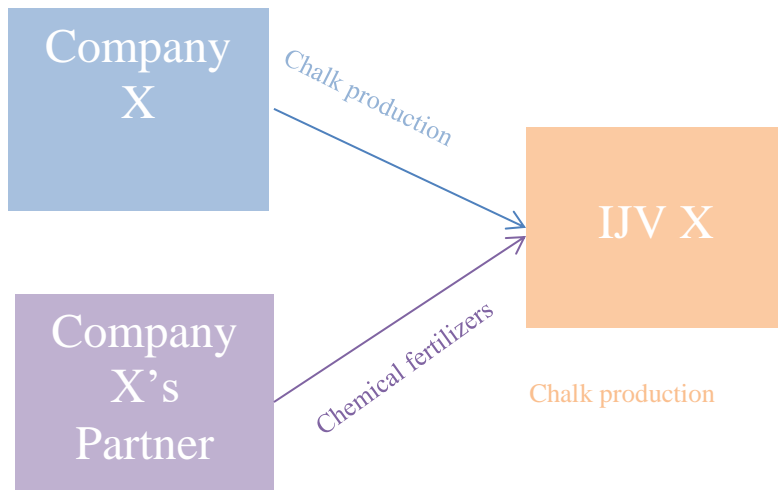
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In this thesis, case companies were selected because each had IJV in the foreign country and later on IJV was terminated. Further, these case companies were selected because each case company had different termination mode: closure, acquisition and sell-off. The interviews for the empirical part were conducted via using telecommunication or via personal meeting with the interviewees of the respective companies. Two case companies preferred to stay anonymous and they are listed as Company X and Company Y, and their representatives are described as Interviewee X and Interviewee Y respectively.

### 5.1 Company X

#### 5.1.1 Description of the case company and their IJV

Company X was founded in the beginning of 20<sup>th</sup> century in the North-East of Germany. The main business line of the Company X as well as of IJV X is the production of chalk. While, the main business line of the company X's partner was chemical fertilizers (Figure 6).



**Figure 6.** Physical structure of IJV X (own illustration, 2018).

In year 1996, the company formed an IJV in Austria with a Japanese partner. The IJV focused more on the chalk production than on the production of chemical fertilizers. Therefore, the IJV business line was different from the business line of Japanese firm. However, the business line of the Company X was very similar to the IJV business line (see Figure 6). At the formation stage of the IJV, approximately 500-600 employees were working in the Company X and 30 employees were transferred to the Austrian IJV. Before the IJV formation, Company X had presence in Austria, namely sales offices and export operations within the country. The Company X owned **51%** equity of the IJV, while the Japanese partner owned **49%** equity. The establishment mode of the IJV was greenfield FDI and the building of the IJV factory took four years. Original purpose was to operate in the IJV for 10 years. During the implementation of IJV, Company X invested resources, such as know-how, patents, HR, R&D and business networks in the target market. Further, the method of IJV termination was stated in the contract which was formed, at the formation stage of the IJV. Company X was originally interested in forming WOS in Austria. However, JV was chosen instead of taking full risk of WOS.

#### 5.1.2 Motives for IJV formation

While deciding to enter Austria, Company X considered various aspects and finally decided to found IJV (Table 6).

**Table 6.** Company X's IJV formation motives (own illustration, 2018).

	Resource seeking		Market seeking			Strategic assets seeking		
	Low-cost factors	Cheap labor	Local market	Customers purchasing power	Market growth prospect	Regional market access	Resource and capacity usage	Strategic assets obtain
<b>High</b>								
<b>Medium</b>								
<b>Low</b>								

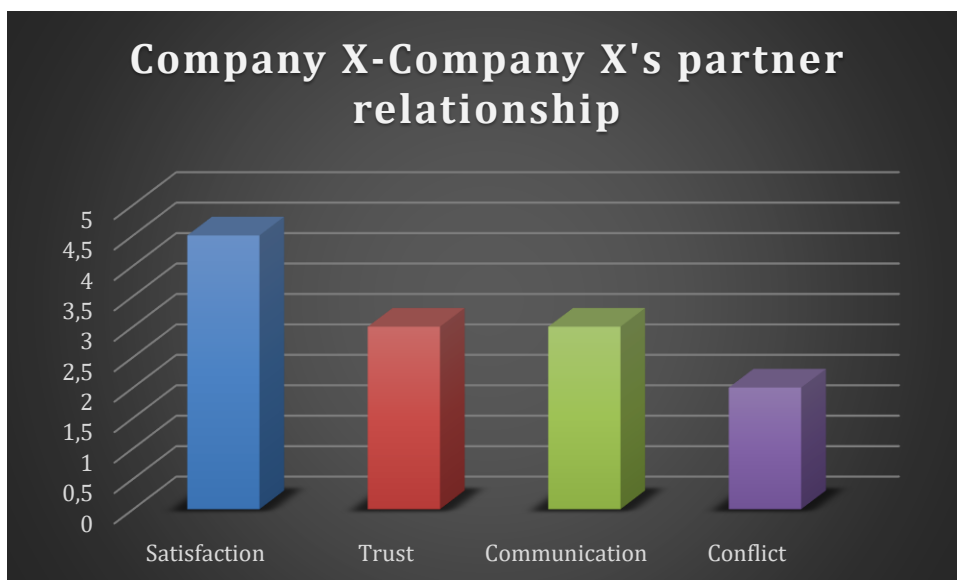
From resource seeking motives, low-cost factor was important for the case company to form IJV in Austria. However, cheap labor was not important motive for the case company. From the market seeking motives, serving the Austrian market, good purchasing power of Austrian customers, and market growth potential motivated the case company to form JV in Austria. Furthermore, from strategic assets seeking motives, resource and capacity usage as well as getting strategic assets from local companies were more important than assessing the regional market.

### 5.1.3 Operation of IJV

Company X planned to continue IJV for 10 years. Despite the fact that there was the possibility to achieve stated goal in a shorter period of time, the IJV was able to succeed set goals only in the middle of 2006. Interviewee X evaluates the financial performance of IJV as very high. She pointed out that the high financial figures were one of the reasons to use acquisition as the termination mode.

### 5.1.4 Relationship with the partner

During the IJV implementation, Company X and its partner built relationship with each other. This relationship was affected by various aspects. Figure 7 provides an overview of the relationship characteristics between Company X and its partner.



**Figure 7.** IJV X parents firm' relationship (own illustration, 2018)

Overall, Company X was satisfied with the behavior of the partners. The Japanese firm was not involved in any kind of dishonest behavior. Interviewee X evaluated the satisfaction with the partner as “...*high, near to very high*”. In addition, the level of the trust was not below medium. Interviewee X pointed out “...*we invested a lot of technologies in this subsidiary as well as our partner did. We would not have done this if we had no trust on partner*”. However, Interviewee X mentioned some aspect that needed improvement. For example, the level of communication was evaluated as low. The Interviewee mentioned that “*Sometimes it was almost impossible to arrange the meeting ... we needed to wait up for a week to discuss simple issues.*” The low communication was the key problem in the cooperation. However, Company X had also some small conflicts and disagreements with the partner. Interviewee X mentioned that though these issues were rather small and were solved very quickly, but they affected relationship between partners.

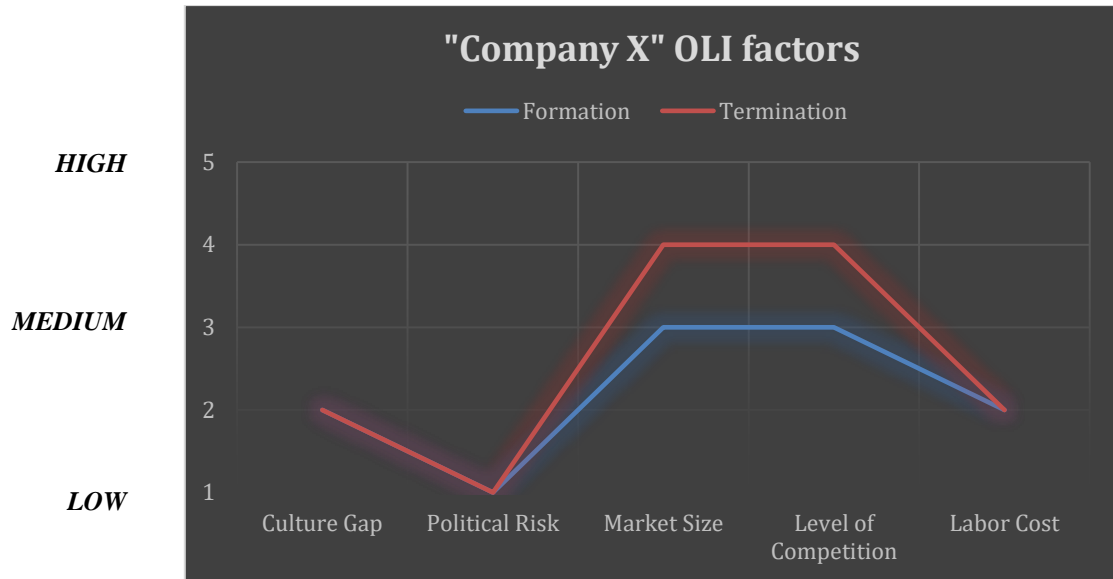
#### 5.1.5 Termination

As stated before, Company X terminated Austrian IJV in 2006. Due to the high profitability of IJV, and Company X’s desire to have WOS, the IJV was **acquired** by the Company X. At the time of IJV acquisition, the IJV had good financial performance which motivated Company X to acquire the JV. In addition, the termination mode of

IJV was carefully prescribed in the IJV formation contract. In accordance with the contract, Company X should acquire the IJV when the contract duration ends. Therefore, Company X acquired the IJV in 2006, right after the end of the contract duration. The main issues which emerged during the IJV termination were how to handle shared know-hows and technologies inside of the IJV. As both companies had invested these kinds of resources into the IJV, both needed to regulate the further usage of these resources. At the end of the operation, Japanese company agreed to provide license agreement for its technology use for the next 10 years.

#### 5.1.6 Eclectic paradigm factors

Several factors affected the Company X's choice of entry and termination mode in Austria. Some of them are known as eclectic paradigm factors or OLI factors (Puck et al. 2009) which influenced the Company X's entry mode choice as well as the IJV termination mode choice. Firstly, location factors are presented in Figure 8. The Figure shows that five main location factors that influenced the Company X penetration in Austria and later on its choice of IJV termination mode are: culture gap between countries, political risk in the target country, market size of the target country, level of competition in the target country and target country labor cost. Further, ownership factors ("O" factors), such as firm size and international experience also influence the IJV termination mode choice and therefore there are explained at the end of the section.



**Figure 8.** Company X OLI factors (own illustration, 2018).

As Figure 8 shows, there are three out of five factors which did not change during the IJV implementation period. These are cultural gap, political risk and labor cost. First, the cultural distance between countries was identified by the Interviewee X as low. Interviewee X stated that as the countries are close and even share the same boarder, therefore there were no difficulties in understanding local customs, traditions, and etc. This statement is also confirmed by the cultural index formula. According to the calculation, the cultural difference between Austria and Germany is approximately 8.7%, which is considered as low cultural distance (Kogut & Singh 1998; Reuer 2002; Hofstede Inside 2018). In addition, there were no significant changes in culture during the implementation of the IJV.

Second, the political risk was classified as very low and did not change for the entire period of the IJV operation. Interviewee X pointed out that “...*there were no political restrictions or harassments for our company...*” However, it was also mentioned that the Japanese partner faced some bureaucratic difficulties in the beginning of the IJV operation.



Third, location factor that did not changed is the cost of labor. The Interviewee said that during the IJV implementation, this factor decreased and increased but overall remained constant.

Further while entering the market, Company X expected the Austrian market to growth. This forecasting proved right. During the IJV implementation, Austrian chalk market progressed. Even before the end of IJV termination, the chalk market growth rate was high.

Along with the market growth, the level of competition also increased. At the IJV formation stage, the level of competition was low, however, it increased over time because of high market growth rate.

In the following, ownership (“O”) factors are discussed, which are firm size and international experience. Company X had 500-600 employees at the IJV formation stage, therefore the company may be classified as the large sized company (>250 workers). In addition, the Company X had previous international experience which simplified the penetration into Austrian market, as well as the IJV termination process.

Overall, ownership and location factors explained the progress of the IJV in the Austrian market. There were changes in the market growth and, consequently in the level of competition. In addition, the prior experience in international activities made the choice of the termination mode more obvious.

#### 5.1.7 Liability of Foreignness (LOF) factors

Hennart et al. (2002) have specified three main difficulties which foreign companies face while entering into the international markets. These difficulties are; lack of the information on the doing business in the target country, discrimination by government, and foreign exchange risk. Interviewee mentioned that foreign exchange risk was not important factor. Therefore in the following, only the remaining two factors of LOF are discussed.

First, the ‘lack of information’ was not a significant factor for the Company X as the company already had the sales and export cooperation in Austrian market before the

formation of JV. In addition, Company X gathered further information during the operation of IJV this information also helped the company in the choice of IJV termination mode.

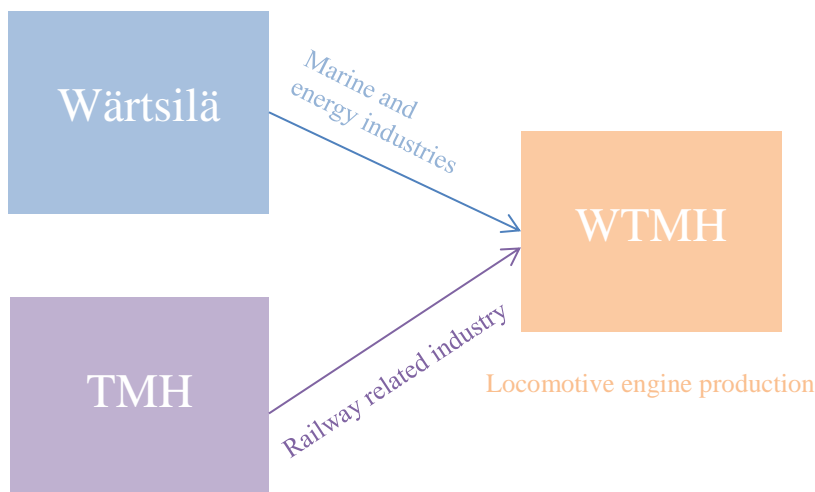
Secondly, during the whole IJV operation, Company X never faced some kind of discrimination from the government, suppliers, consumers etc. The author assumes that this situation is also related to the fact that Company X already had the presence in the Austria chalk market. However, the Japanese partner has faced some discrimination in case of the IJV formation.

As it is shown in this chapter, LOF factors were not so important in the Company X case. That had been possible by the fact of close cooperation with the target country before the formation of the IJV.

## 5.2 Wärtsilä

### 5.2.1 Description of the company and IJV

Wärtsilä is the Finnish based company which was established in 1834 in the city of Wärtsilä. The company is focused on delivering, equipment solutions and services for marine and energy markets.



**Figure 9.** Physical structure of WTMH IJV (own illustration, 2018).

In 2010, Wärtsilä has established IJV with Russian company, namely, JSC Transmashholding (TMH). The IJV was named Wärtsilä TMH Diesel Engine Company LLC (WTMH) and was located in Penza, Russia. WTMH was focused on the locomotive engine production which was new area for Wärtsilä but the main business line of TMH (Figure 9). Wärtsilä has already had presence in Russian market but WTMH was the first manufacturing facility in the country. Before 2010, there were sales and service offices in Russia. At formation stage of IJV, there were approximately 18,000 employees in Wärtsilä and 35,000 employees in TMH. During the IJV operation, the amount of employees did not change significantly. Wärtsilä has transferred 3-5 employees to Russian IJV. WTMH was equal JV which means that both partner had **50% equity of the IJV**. The entry mode of Russian market was Greenfield FDI. Planning and building of the required factory took two years. During four years of work, Wärtsilä invested resources such as share capital, financial assets, locomotive engine technologies, licenses for building engines, plant construction support, building resources and consultation on the plant construction. The termination mode possibility was stated in the original IJV contract which was formed, at the formation stage of IJV. However, the description of the termination process was not carefully stated in the contract.

### 5.2.2 Motives for FDI

While deciding to enter Russia, Wärtsilä considered various aspects and finally decided to form IJV (Table 7).

**Table 7.** Wärtsilä's IJV formation motives (own illustration, 2018).

	Resource seeking		Market seeking			Strategic assets seeking		
	Low-cost factors	Cheap labor	Local market	Customers purchasing power	Market growth prospect	Regional market access	Resource and capacity usage	Strategic assets obtain
<b>High</b>								
<b>Medium</b>								
<b>Low</b>								

From resource seeking motives, low-cost input factor was significant for Wärtsilä as the company planned to buy locally in Russia and to operate in railway sphere. However,

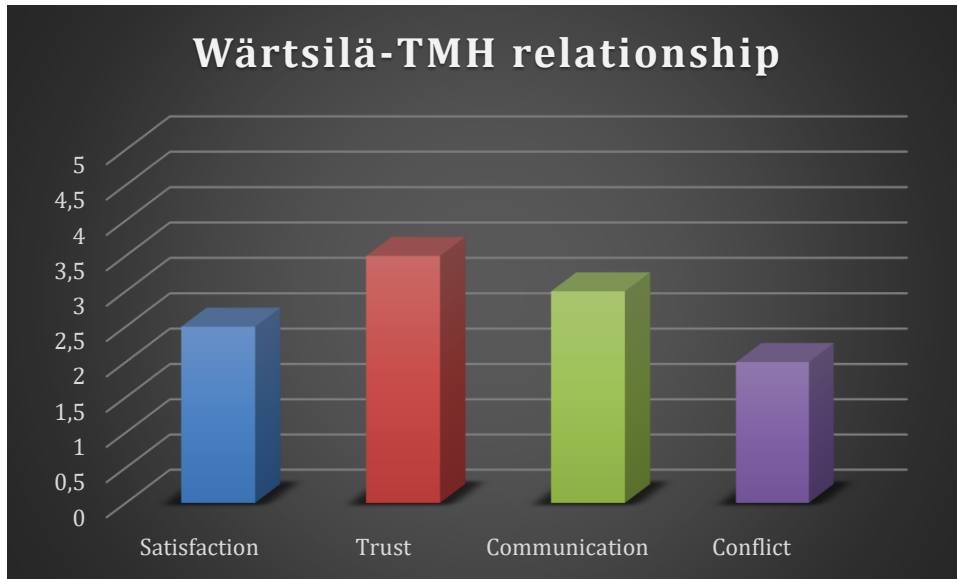
access to the cheap labor was not essential for Wärtsilä. The Interviewee pointed out that the labor cost in the target market was almost as much as in Finland. From the market seeking motives, serving the Russian market as well as market growth potential were more important than customer purchasing power. In addition, market growth prospects were the main motive for the case company to invest in the target market. Mr. Nyfors stated that serve Russian market was important for Wärtsilä as there was the need in new and modern locomotive engines. Moreover, from strategic seeking motives, resource and capacity usage was more important than regional market access and strategic assets obtain.

### 5.2.3 Operation of IJV

Wärtsilä needed to sell-off the part of IJV after four years of work (2010-2014). Nevertheless, it should also be stated that the actual implementation of WTMH was one year. As it was the manufacturing IJV, there was some time required for the plant construction. One year was spent for the planning of the construction and two years were spent for the construction of the factory. Mr. Nyfors evaluated financial performance of IJV as medium. However, it should be taken into account that the majority of investment went for the plant construction. The satisfaction level of WTMH was evaluated as low since the construction time was longer than expected and the market volume has rapidly decreased.

### 5.2.4 Relationship with the partner

During the IJV implementation, Wärtsilä and TMH built relationship with each other. The relationship was affected by several factors. Figure 10 provides the overview of the relationship characteristics between Wärtsilä and TMH.



**Figure 10.** WTMH parents firms' relationship (own illustration, 2018)

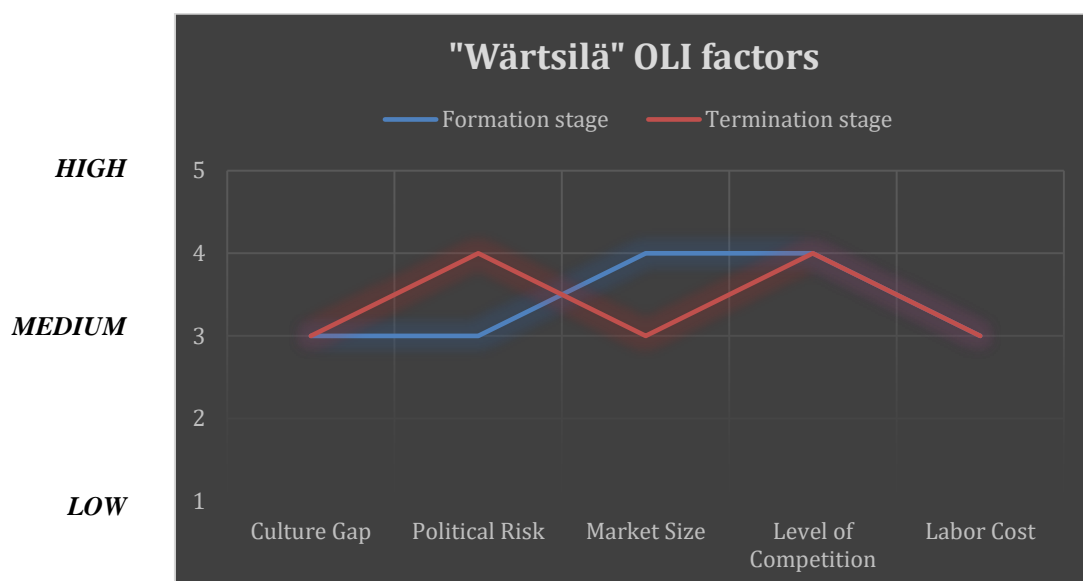
Overall, satisfaction level of the relationship between Wärtsilä and TMH was evaluated as average. *"...it was too short period (about the implementation of IJV), there were very much in the start-up phase and the financial performance was not very good because it is always costly to run activity in factory."* – Mr. Nyfors said. The interviewee also pointed out the high level of respect which was between the partners. TMH was not involved in any kind of dishonest behavior which leads to high level of trust. Overall, the communication between the partners is a bit above average. Mr. Nyfors identifies that the high staff turnover affected on the communication. *"What happened during the construction phase is that they (TMH) changed project managers very frequently and people changed positions since that is the big company, they promoted or laid-off ... but, in general, the biggest issue was to find the right contact person and response time..."* – he said. A several times simple decision took more time than expected as the opinion of many people needed to be taken into consideration and these opinions have not always coincided. Nevertheless, the communication on the top-level was very high. Therefore, Wärtsilä had several disagreements on the construction stage with TMH. However, they did not effect on the relationship between partners.

### 5.2.5 Termination

After four years of work, Wärtsilä terminated WTMH in 2014. Due to decreased market outlook of locomotive engines, Wärtsilä took a strategic decision to leave the locomotive engine market. The case company decided to **sell-off** its shares in WTMH to Russian partner. Mr. Nyfors identifies the choice of the particular industry by the desire to have one extra sphere of operation in the target market. *“We had the marine engines, we had power plant, we had services (in Russian market) and we wanted to enter to railway locomotive business”*- he said. The termination of WTMH was stated in the IJV formation contract but the termination process was not prescribed thoroughly. However, the process of termination went surprisingly smoothly. Despite the need to leave Russian market, Mr. Nyfors believes the IJV profitability and success if it had continued its work.

### 5.2.6 Eclectic paradigm factors

Several factors affected Wärtsilä's choice of entry and termination mode in Russia. The Figure 11 is offering the comparison of WTMH electric paradigm or OLI analyzed factors at the formation and at the termination stages. As in the case of Company X, the OLI factors involves two ownership factors (“O” factors), namely firm size and international experience, as well as five location factors (“L” factors), namely culture gap between countries, political risk in the target country, market size of the target country, level of competition in the target country and target country labor cost .



**Figure 11.** Wärtsilä OLI factors (own illustration, 2018).

As Figure 11 shows, there are three out of five factors which did not change during WTMH implementation. These are culture gap, level of competition and labor cost. First, cultural distance between countries was identified as medium. This statement is also confirmed by cultural index formula. According to the calculation, the cultural gap between Russia and Finland is approximately 14.7%, which is considered as medium (Kogut & Singh 1988; Reuer 2002; Hofstede Inside 2018).

Secondly, location factor which did not change is labor cost. Mr. Nyfors identified labor cost as medium and mentioned the absence of significant changes.

Thirdly, level of competition identified between medium and high and did not change for the entire period of IJV operation. Mr. Nyfors stated that the competition was mainly in the private sector, industrial and short-railway locomotive areas.

Further, while entering the market Wärtsilä expected Russian market to grow. Unfortunately, this forecast was not proved right. Opposite, during WTMH implementation, Russian locomotive engine production declined. As, in the beginning of IJV operation, the market size was identified between medium and high but, in the end of the IJV operation, the market size was on the medium level. However, Mr. Nyfors sees the need of the improvement in locomotive railway sector. He stated:

*“There (in Russia) is very big railway network, lots of trains, lot of locomotives but it needs to be upgraded. The intention was to upgrade locomotives, and that also build new locomotives with new environmental friendly technologies. It was upgrading existing locomotives and other products, other locomotives. And that decision was ... The need is still there but investment were postponed or even stopped.”*

Opposite to the market decrease, the political risk in Russia increased. At the IJV formation, political risk was medium, however, it increased over time. The relationship between the termination mode choice and the political risk is not obvious at the first glance. The IJV was sold-off and Wärtsilä was not in the rush with the termination of WTMH. However, digging further into facts illuminates that due to the political risk increase, the case company decreased the amount of investments and its volume to WTMH. As it was stated before, that was one of the two main determinants of IJV termination mode choice. Therefore, political risk increase has indirect influence on WTMH termination mode choice.

In the following, ownership (“O”) factors are discussed, which are firm size and international experience. Wärtsilä had approximately 18.000 employees at the IJV formation stage, therefore, the company may be classified as the large-sized company (>250 employees). In addition, the case company had previous international experience as in FDI investments (both IJVs and WOSs), as in IJV termination.

Overall, ownership and location factors show the negative trends at the time of 2014. There were negative changes both in political risk and market size. In addition, previous experience in IJV termination made the process of WTMH termination easier.

### 5.2.7 LOF factors

As in the case of Company X, two out of three LOF factors were important, namely lack of information on the doing business in the target country and discrimination by government. Foreign exchange risk was not considered as significant factor. Therefore, only the remaining two factors of LOF are discussed.

Firstly, “lack of information” was important factor for Wärtsilä. Even despite the fact that the case company had sales and service offices in Russia, Wärtsilä had a rough idea



about manufacturing business in the target country. In the process of interview, it was identified that if the IJV dissolution would arise in two months, Wärtsilä would have needed to find another local partner.

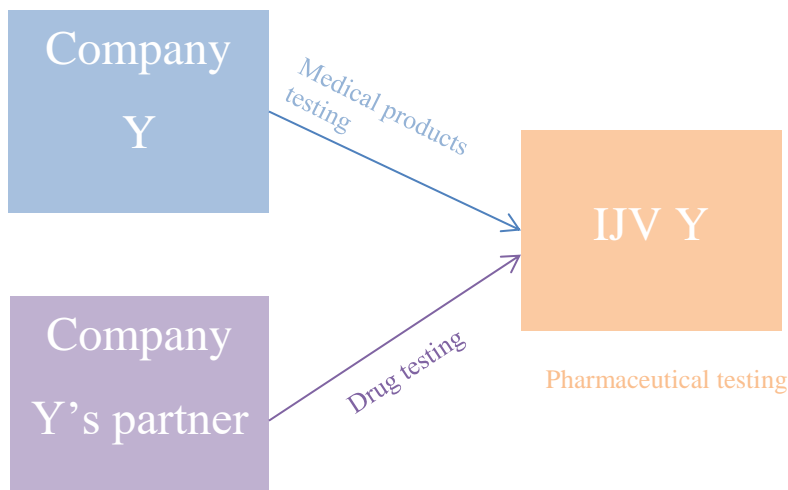
Secondly, target market authorities discrimination has also occurred to varying degrees at the penetration stage. “... *It was recommended to have Russian partner.*” – Mr. Nyfors stated. The probability to avoid bureaucracy which is inherent to Russian market was higher with the local partner. In addition, there was the opportunity to get access to already existed business network.

As it is shown in the chapter, LOF factors were important in Wärtsilä case. The need of local knowledge has been identified. Apparently, that was one of the main factors influenced on the IJV choice. This assumption also supported by the fact that Wärtsilä has been creating IJVs only with local companies but not with the third country ones.

### 5.3 Company Y

#### 5.3.1 Description of the company and IJV

Company Y was founded in the beginning of 21<sup>st</sup> century in Saint-Petersburg, Russia. The main business line of Company Y is medical products testing. While, the main business line of Company Y’s partner is drug testing.



**Figure 12.** Physical structure of IJV Y (own illustration, 2018).

Company Y has formed IJV Y with the Ukrainian partner in 2008. The IJV was established in Kiev, Ukraine. The main business line of the IJV was pharmaceutical testing which is very close to the Company Y business line but was different to the Ukrainian partner main business line (Figure 12). At the formation stage of IJV Y, approximately 50 employees were working in Company Y and 10 employees were transferred to IJV Y. Company Y owned **55%** equity of the IJV, while the Ukrainian partner owned **45%** equity. The establishment mode of IJV was greenfield FDI. As IJV Y was not manufacturing IJV, there was not necessary to construct factory but acquisition and transportation of equipment was needed. During the implementation of IJV, Company Y invested resources such as HR, R&D, medicine testing patterns and technologies. Further, the termination method was stated in the original IJV contract, however, the description of the method was incomplete.

### 5.3.2 Motives for FDI

While deciding to enter Ukraine, Company Y considered various aspects and finally decided to found IJV (Table 8).

**Table 8.** Company Y's IJV formation motives (own illustration, 2018).

	Resource seeking		Market seeking			Strategic assets seeking		
	Low-cost factors	Cheap labor	Local market	Customers purchasing power	Market growth prospect	Regional market access	Resource and capacity usage	Strategic assets obtain
<b>High</b>								
<b>Medium</b>								
<b>Low</b>								

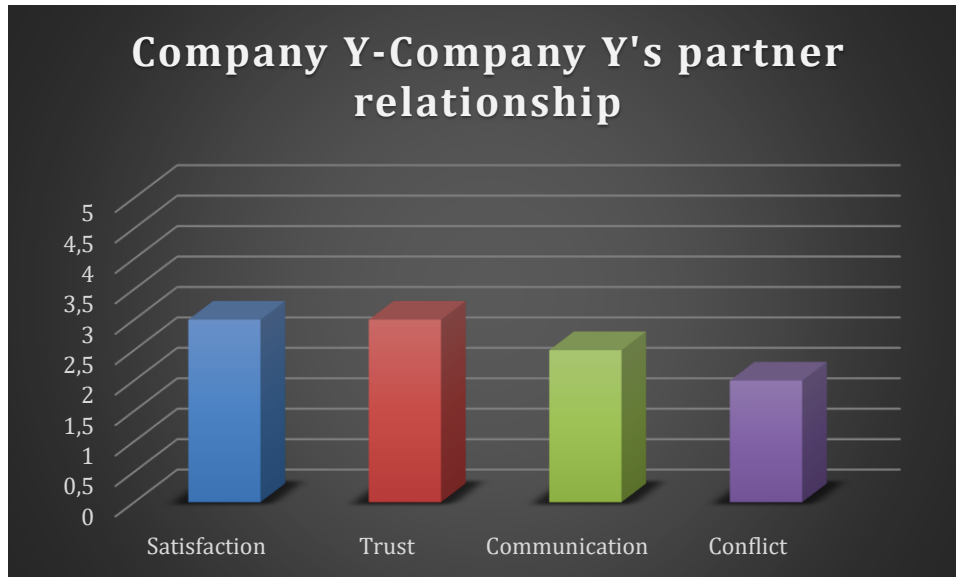
From resource seeking motives, both low-cost input factors and access to cheap labor were not important motives for the case company. From the market seeking motives, market growth prospects, purchasing power of customer and serve Ukrainian market motivated Company Y to form IJV in Ukraine. Furthermore, from strategic assets seeking motives, access to the regional market was more important than resource and capacity usage and strategic assets obtain.

### 5.3.3 Operation of IJV

Company Y was operating in the Ukrainian market between 2008 and 2013. During this period, the IJV did not face any financial difficulties. However, business network building took some time in the beginning of IJV Y operation. In addition, goal achievement was evaluated as medium. In addition, IJV Y had contracts not only with Ukrainian market customers but also with a several CIS countries customers. “... we wanted to use Ukrainian market as the starting point for the Eastern Europe expansion...” – Interviewee Y stated. Therefore, the termination possibility was conceived even at the stage of formation. However, the process of termination has happened not exactly as it was planned.

### 5.3.4 Relationship with the partner

During the IJV implementation, Company Y and its partner built relationship with each other. This relationship was affected by various aspects. Figure 13 provides as overview of the relationship characteristics between Company Y and its partners.



**Figure 13.** IJV Y parents firms’ relationship (own illustration, 2018)

Overall, satisfaction of the relationship with Ukrainian partner was evaluated as average. Interviewee Y stated: “... that (the relationship) was not good but not bad. They (Ukrainian firm) did not break promises and usually tried to support IJV from

*their side.*” In addition, the trust level was identified as medium. Company Y’s partner did not give any reason for the distrust but, at the same time, was not working on the improvement of the trust between the firms. Company Y was ready to face with some kind of inappropriate behavior from the side of the Ukrainian partner. However, the partner was very respectful and was not involved in any kind of inappropriate behavior during the IJV operation. However, Interviewee Y mentioned some aspects that needed improvement. For example, the level of communication was evaluated as below average because Company Y needed to wait for responds from the side of Ukrainian firm longer than expected. In addition, there were not significant disagreements between the companies during the implementation of IJV Y. Nevertheless, the discussions about the way of working and the main IJV aims were occurring occasionally.

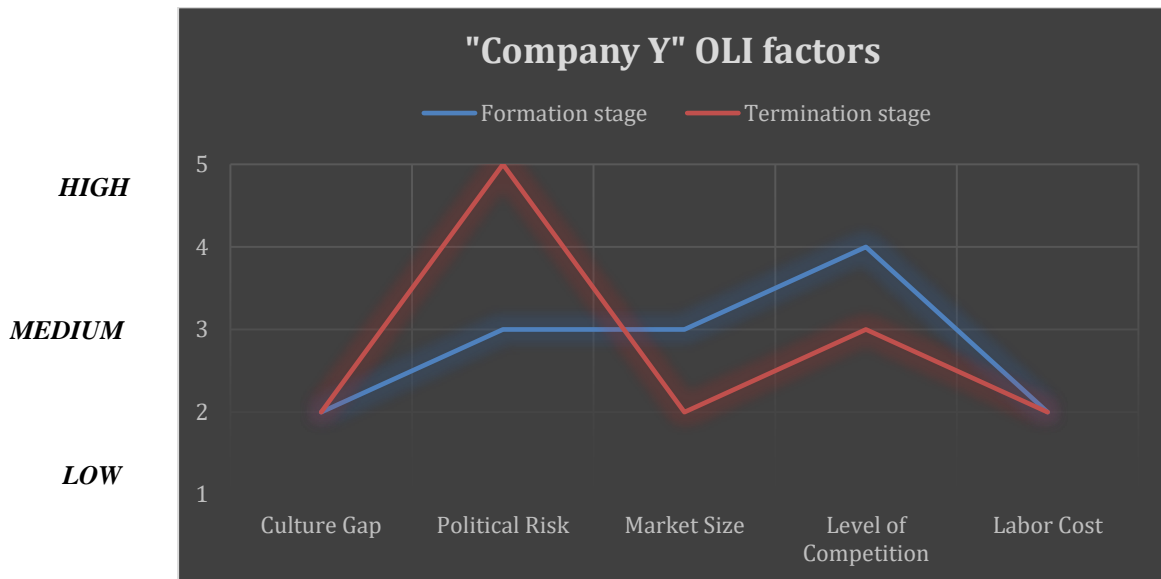
#### 5.3.5 Termination

Company Y terminated Ukrainian market at the end of 2013. Even despite the fact that IJV Y started bringing profits in the last year, the subsidiary was **liquidated**. Interviewee Y explains that by the fact that IJV Y needed to find B2B customers at first and that took more than expected. However, the main reason for termination was high political instability which rose in 2013. The political situation was at the medium level during the formation of IJV. However, political risk has rapidly increased by 2013. In addition, the process of termination of IJV Y was carried out on the expedited basis and the Ukrainian partner did not impede that. Personally, Interviewee Y regrets that the political actions made the further operation impossible. He stated that the IJV just started bringing profits and there were definitely prospects not only in Ukraine but also in the Europe.

#### 5.3.6 Eclectic paradigm factors

Several factors affected on the entry and termination mode in Ukraine. As in the previous two cases, OLI factors, particularly location (“L”) factors and internalization (“I”) factors, are reflected in this section. Figure 14 shows five “L” factors influenced Company Y penetration of Ukraine and later on its choice of IJV termination mode, namely, culture gap between countries, political risk in the target country, market size of the target country, level of competition in the target country and target country labor

cost. Further, “O” factors such as firm size and international experience also influenced IJV termination mode choice and they are explained at the end of the section.



**Figure 14.** Company Y OLI factors (own illustration, 2018).

As Figure 13 shows, there are two out of five factors which did not change during the IJV implementation period. These are cultural distance and labor cost. First, cultural distance between countries was identified as low by Interviewee Y. The Interviewee stated that the cultures of Russia and Ukraine are close and emphasized that eight years is not enough for culture change. This statement is also supported by cultural distance index. According to this theory, the cultural distance between Russia and Ukraine is approximately 3% (Kogut & Singh 1988; Reuer 2002; Hofstede Inside 2018).

Second, labor cost was classified as low and it did not significantly change for the entire period of the IJV operation. Interviewee Y also pointed out insignificant increases and decreases in labor cost.

Further, while entering Ukrainian market, Company Y identified political risk as medium. Nevertheless, during the operation of the IJV political instability in Ukraine has arisen. Therefore, by the end of 2013, this factor was identified as very high.

Inversely to political risk growth, pharmaceutical testing market size has decreased. In the beginning of IJV operation, this factor was identified as medium. However, it decreased over the time to low level.

Along with the market decline, the level of competition has also decreased. At the IJV formation stage, the level of competition was high, however, it decreased over the time due to very high political risk.

In the following, “O” factors are discussed, which are firm size and international experience. Company Y had 50-250 employees at the IJV formation stage, therefore, the company may be classified as middle-sized company. In addition, IJV Y was the first international experience of the case company.

Overall, ownership and location factors explain the regress of IJV Y in Ukrainian market. Due to the rapid increase in political risk, the market was turned to the unattractive place for the investments. That led to the decrease in both market size and the level of competition. In addition, the lack of international experience and relatively small company size motivate Company Y to terminate Ukrainian market via liquidation.

### 5.3.7 LOF factor

As in the previous cases, two out of three LOF factors were influenced on Company Y. These factors are lack of information on the doing business in the target country and discrimination by government.

First, the “lack of information” was important factor for Company Y. The case company had the information on how to do business in pharmaceutical testing market in Ukraine but less than local firms. In the simulated situation, where it would have been the need to invest resources somewhere after dissolution of the IJV in two months of operation, the Interviewee Y points that the company would have to find the new local partner.

Secondly, the “level of discrimination by local authorities” was also influenced on Company Y. “...the attitude to Russian firms in Ukraine was not the best in general...”

– Interviewee Y said. Nevertheless, with the support of Company Y’s partner, it was possible to overcome aforementioned barrier.

Overall, LOF factors had the essential influence on IJV Y. The apprehensions about the discrimination by the local authorities have been realized. In addition, local knowledge necessary for an adequate sole implementation in the target market were not acquired. This would also create a need of other IJV for the case company in case of entering Ukrainian market again.

#### 5.4 Factors affecting on the choice of IJV termination mode

In this sub-section, the determinants affected on the termination mode choice are classified. The results are classified in the form of four aforementioned level factors, namely, firm level factors, IJV level factors, inter-partner level factors and host country level factors. Table 9 is offering the overview of these levels by presenting factors affected on the case companies. Each level and determinant of a level influenced on the particular termination method choice is briefly explained below.

**Table 9.** Effect of determinants of IJV termination mode choice (own illustration, 2018)

	<b>Company X</b>	<b>Wärtsilä</b>	<b>Company Y</b>
<i>Firm level factors</i>			
<b>Parent firm support</b>	High	Very High	Medium-High
<b>IJV industry</b>	Same	Different	Same
<b>IJV financial performance</b>	High	Low-Medium	Medium-High
<b>Parent firm size</b>	Large-sized	Large-sized	Medium-sized
<b>IJV size</b>	Small-sized	Small-sized	Small-sized
<b>Strategy instability</b>	Low	High	Low
<b>Assets specificity</b>	High	High	High
<b>Cash surplus</b>	Low	Low	Low
<b>IJV acquisition experience</b>	High	High	Low

<b>Parent firm expansion</b>	High	Low	Low
<i>IJV level factors</i>			
<b>Entry mode</b>	Greenfield	Greenfield	Greenfield
<b>Premature IJV goal achievement</b>	No	No	No
<b>Contract obligations</b>	Carefully prescribed	Partly prescribed	Partly prescribed
<b>Equity level</b>	Major IJV	Equal IJV	Major IJV
<i>Inter-partner level factors</i>			
<b>Trust</b>	Medium	Medium-High	Medium
<b>Communication</b>	Medium	Medium	Low-Medium
<b>Co-opetition</b>	None	None	None
<b>Inter-partner conflict</b>	Low*	Low*	Low*
<b>Acquisition of partner knowledge</b>	High	Low	Low
<b>Parents' different financial situation</b>	No	No	No
<b>Unmet expectations</b>	Low	Low	Low
<i>Host country level factors</i>			
<b>Cultural distance</b>	Low	Medium	Low
<b>Market size</b>	High	Medium	Low
<b>Labor cost</b>	Low	Medium	Low
<b>Competition level</b>	High	High	Medium
<b>Political risk</b>	Low	High	Very High

\*-some disagreements were occurring

### *Company X*

Company X was operating the IJV with the Japanese firm for 10 years. For this amount of time, there were a lot of changes in the market and inside the company in general. However, the situation at the time of termination was follow (Table 9).



*Firm level factors:* Despite the fact that this level includes eleven factors, the special influence on the outcome has been made by five factors. Chang & Singh (1999) observed in its study that there is the need for IJVs to receive support from parent firm sides. The fact that Company X invested a lot to IJV X (e.g. HR, technologies etc.) influenced on the choice of acquisition termination mode. **Secondly**, the fact of the same industry of IJV X and Company X has contributed to the particular termination mode choice. **Thirdly**, high IJV performance for the entire period of work has seemed very attractive for Company X and has tipped the scale to acquisition termination mode choice. In addition, Lyles & Salk (2007) emphasize that previous experience of parent firm in M&A has an effect on the termination mode choice. The choice of acquisition termination mode for the case company was easier as the company had previous experience in IJV acquisition. **Moreover**, Zaheer & Mosakowski (1997) state that if companies want to test demands of its products in the target country, they use one type of FDI and then turn to another. That was the case of Company X. The company was aiming to have WOS in Austria but the risks were very high. Therefore, the firm has decided to enter the market with IJV and then expand to WOS.

*IJV level factors:* At this stage, three out of four previously specified determinants had great effect on the termination mode choice. **Firstly**, the method of penetration of the market was greenfield IJV. The high amount of firm-specific resources is inherent to this FDI type (Dadzie, Larimo & Nguyen 2014). Therefore, the desire to not share this type of assets to third party leads to acquisition termination mode choice. **Secondly**, different options of termination have been stated in the IJV contract since the beginning of the implementation. In accordance with the contract, Company X had the priority option of acquisition after 10 year of implementation. **Thirdly**, Mata and Portugal (2000) investigated that the majority IJV partner usually acquire the part of the minority IJV partner. Company X owned 51% equity that affected on the acquisition termination mode choice.

*Inter-partner level factors:* These level factors had the less effect on the IJV X termination. However, there is **one** aspect which has been essential during the termination mode choice, in particular, this is the acquisition of partner's knowledge. Puck et al. (2009) emphasize the acquisition of partner's knowledge in all of the

spheres. For the ten year of operation, Company X was able to acquire Japanese partner's knowledge. In addition, in the end of the operation, the case company got 10 years technology usage licensing agreement with the Japanese partner.

*Host country factors:* The stage of host country factors had also the effect on the termination mode choice. There were two factors which influenced on the choice of acquisition. **Firstly**, Reuer (2002) emphasizes that the small culture distance between home and host countries leads to acquisition of the IJV. As it was stated before, cultural gap between Austria and Germany is quite small. Consequently, company X did not face any challenges with local laws, values and regulations which also influenced on acquisition termination mode choice. **Secondly**, as it was stated before (see Figure 8), Austrian chalk market has increased during the 10 year of IJV X implementation. This fact made the option of acquisition even more attractive for Company X. Similar findings can be found in Stämpfli and Vladimirov (2017) work. The researchers state that companies acquire its IJV facilities in growing market countries.

*Outcome:* To a large extent, this case illustrates the importance of careful description of termination method in IJV formation contract. In addition, high profitability of an IJV in the combination with previous IJV acquisition experience made the acquisition termination mode even more attractive. Further, high Company X support significantly increased during the last 2-3 years of the operation has also affected on the termination mode choice. As a result, Company X has terminated IJV X by the means of **acquisition** (Figure 15).

### ***Wärtsilä***

Opposite to Company X, Wärtsilä was not able to operate as much time as it was planned. WTMH has been able to work just for four years and three of them have been spent for the factory planning and building. Then, Wärtsilä needed to sell its part to TMH. There were several factors affecting on this decision (Table 9).

*Firm level factors:* In this group factors, the biggest influence on the termination mode choice has been made by the several determinants. **Firstly**, the different IJV and parent firm industries of operation played the important role in the termination mode choice.

As Stewart, Harris and Carleton (1984) explain parent firms usually can not provide specific resources to IJVs which operate in spheres different from the parent firm main business line. Wärtsilä has aimed to enter locomotive engine industry with WTMH. However, the parent firm was not able to support WTMH fully. **Secondly**, previous M&A experience allowed Wärtsilä to terminate WTMH easier as they have already went through the process. **Thirdly**, the instability in case of the parent firm strategy has also affected on the sell-off of WTMH. As Cui et al. (2011) explained, the change of the strategy over the time leads to the IJV termination (e.g. closure or sell-off). During the IJV implementation, Wärtsilä has changed the strategy which obviated the need for WTMH. **Consequently**, there was no desire to expand in this business sphere. This aspect has also influenced on the case company.

*IJV level factors:* From this group of factors, there were two determinants which especially influenced on the particular mode choice. **First**, partly prescribed contract obligation made it possible to sell-off IJV without heavy financial losses. **Secondly**, as it was the equal IJV, the companies had the same rights in case of the decision-making. As Li, Zhou and Zajac (2009) as well as Piaskowska, Nadolska and Barkema (2017) describe, equal IJV are complex and slow in case of decision making process. The same problem was in WTMH. Decision making was complicated and was always taking a while. The acquisition of Wärtsilä's part of WTMH may help to avoid such issues in the future.

*Inter-partner level factors:* The theoretical model (see Figure 5) states that there is **one** inter-partner level determinant affecting on the termination mode choice, namely, co-opetition aspect. However, the empirical finding shows that this level factor did not have partly or fully influence on WTMH termination mode choice.

*Host country level factors:* This group of determinants has a couple of factors which influenced on the termination mode choice in varying degrees. **Firstly**, it has been found that the market size decrease had partly affected on the termination mode choice. In the beginning of the implementation, the market size was identified as high but, in the end, this variable has decreased to the low rate. **Opposite**, the aspect of the political risk had high influence on the choice of the termination mode. Mr. Nyfors stated that

during the implementation, the political risk has increased from the medium to the high level.

*Outcome:* WTMH has started very enthusiastically in 2010. Wärtsilä and, particularly, Mr. Nyfors were very excited about this IJV. However, due to the several reasons, Wärtsilä needed to **sell-off** its part of the IJV to TMH in 2014. It was already stated that WTMH operation was different to Wärtsilä's main business line. The case company was focused on marine and energy markets. That leads to the change of the strategy.. Wärtsilä recognized that locomotive engine production is not the business where they would like to be. In addition, the increased political risk in Russia has also influenced on the termination mode choice (Figure 15).

### *Company Y*

IJV Y has been launched in 2008. At this time, there were bright perspectives in case of the operation in pharmaceutical testing sphere in Ukrainian market. However, Company Y needed to leave the market in 2013 due to the several reasons (Table 9).

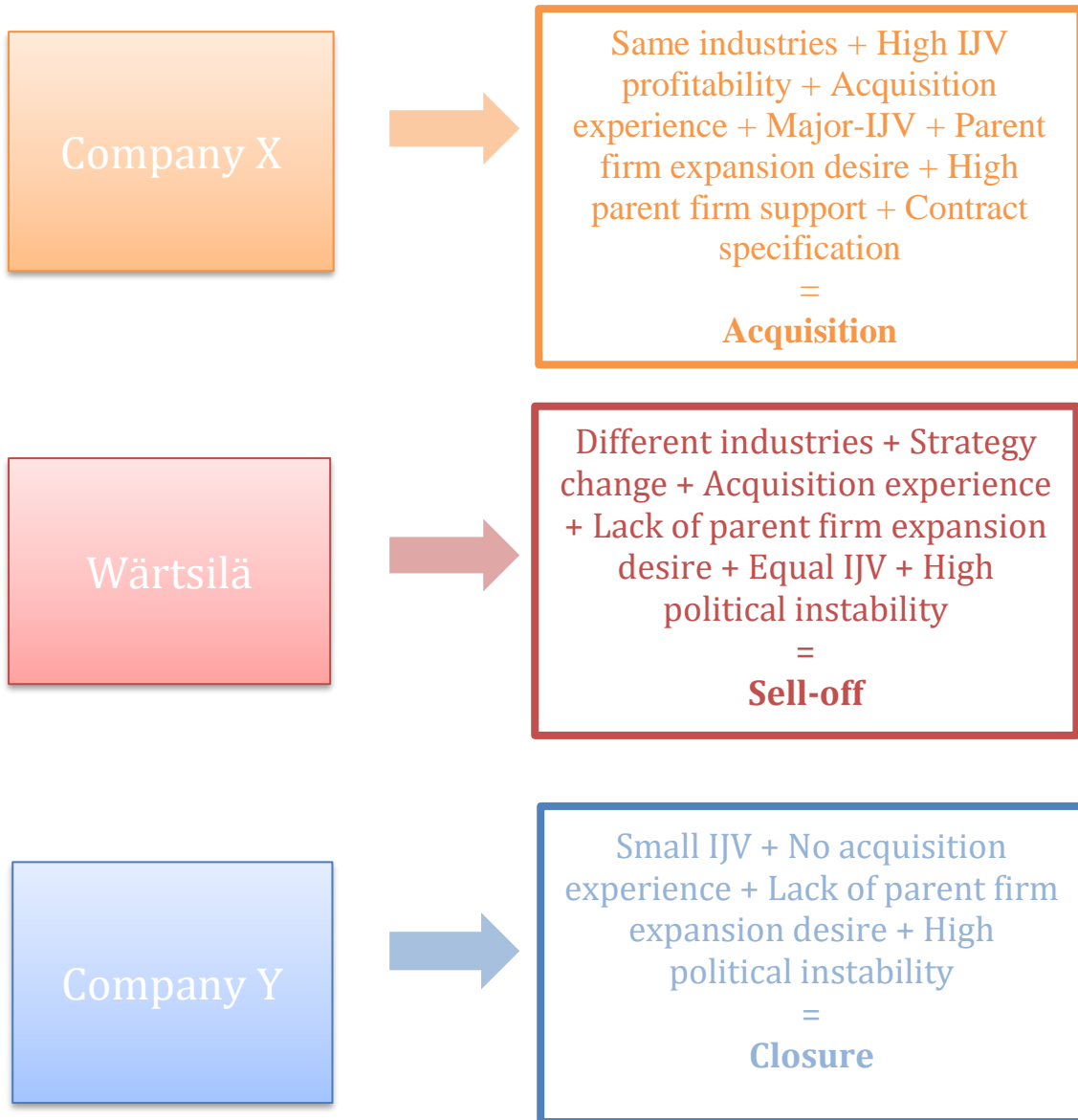
*Firm level factors:* This factor group includes a several important determinants. **Firstly**, the size of the parent firm played the significant role in the termination mode choice. Changh and Singh (1999) state that smaller-sized firms invest in IJVs less specified technologies than large-sized parent firms. Consequently, the process of termination is simpler than in big firms. As Company Y is the middle-sized firm, the process of the termination was simpler and faster than in could be in large-sized firms. **Secondly**, as IJV Y was the first international experience of Company Y, the case company had no M&A experience. This factor has affected the choice of closure. **Thirdly**, the size of the IJV has also affected on the termination mode choice. Sharma and Kesner (1996) explain that poorer investment variability is inherent to smaller companies. This assumption was confirmed by empirical findings as Company Y invested less to its IJV than Wärtsilä and Company X did. **Moreover**, Zaheer & Mosakowski (1997) explain that some companies convert its IJVs to WOSs after some time of operation in the target country as they have desire to expand its businesses. However, Company X did not have any desire to expand in Ukraine. That also influenced on the termination mode choice.

*IJV level factors:* This group of factors showed only **one** important determinant in case of termination mode choice of IJV Y. This is the entry mode of Company Y. Due to the fact that the penetration method was greenfield IJV, the sale-off IJV Y was not preferably. This finding is also supported by Mata and Portugal (2000) who investigated that greenfield IJVs will be more likely closed down than acquisition IJVs.

*Inter-partner level factors:* There was also **one** determinant in inter-partner level group. As the communication between partners was evaluated as below average, that increased decision-making time and, consequently, decreased the productivity. However, during the termination, the communication between companies was on the surprisingly high level.

*Host-country level factors:* This group of factors was the most important for IJV Y termination mode choice. There were two important factors. **First and foremost**, the political situation in Ukraine has forced Company Y to terminate the market. That was previously stated that the political situation was not the best even at the time of the penetration. However, the further implementation has become dangerous for lives of employees and Company Y has decided to leave the market as soon as possible. This finding is also supported by Reuer (2002) investigation. The researcher points out that political instability provoke the fast termination of IJV. **Secondly**, along with the political risk increase, there was also the decrease in the market size which has partly affected on the termination method. Ravenscraft and Scherer (1991) also state that small market size motivates companies to terminate its IJVs.

*Outcome:* The operation in Ukraine has not been easy from the outset. However, Company Y expected the situation to stabilize and saw perspectives in the target market. Nevertheless, political instability made it impossible to continue operation in Ukraine. The small size of IJV should also be taken into account as this aspect made the termination easier and survival harder. Additionally to that, the lack of M&A experience and of desire to expand in the target market did not let the case company to choose other termination mode. Company Y left Ukrainian market in 2013 before active hostilities. Selected method of termination was **liquidation** (Figure 15).



**Figure 15.** Outcomes and results of case companies' termination (own illustration, 2018).

Figure 15 shows the determinants influenced the most on the termination modes choice of the case companies. Out of 26 determinants, identified in chapter 3.2, ten had the particular impact on termination of IJV Y, IJV X or WTMH case. It also should be taken into consideration, that Company X and Company Y cases have very similar

determinants (i.e. in equity level, IJV industry, cultural distance and labor cost) but the termination modes were different (acquisition and closure). It was expected that Company Y would terminate via acquisition as Company X. However, significant difference in political risk factor (low in Company X case and very high in Company Y case) made it impossible for Company Y to terminate via acquisition. Consequently, there are some determinants which are more important than others and may effect on termination mode choice very significantly.

## 6 CONCLUSION

*This chapter begins with the key findings of the thesis. Further, theoretical and practical implications are described in the chapter. Then, the suggestions for future research are stated. The chapter ends with the limitations of the study.*

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### 6.1 Key findings

The purpose of this study was to investigate the determinants affecting on the IJV termination mode choice. Since the research topic is quite new, there is the lack of theory related to the topic. Due to this fact, there was the need to integrate a several theoretical frameworks to obtain the suitable one for the thesis. As, there were Liability of Foreignness (Hennart et al. 2002), FDI theory (Dunning & Lundan 2008) and Divestment Theory (Nyuur & Debrah 2014) integrated to the thesis framework (Figure 5). Therefore, that involves four level factors of termination, namely, firm, IJV, inter-partner and host country level factors.

Overall, among of the 26 theory-based determinants, 17 determinants were reaffirmed by empirical findings. However, ten of them were significant in termination mode choice, namely, un-related parent firm and IJV industries, previous M&A experience, IJV profitability over the time, size of IJV, strategy instability, parent firm business expansion, parent firm support, contract specifications, ownership structure and political risk. Unexpectedly, asset-specify determinant did not find support. This finding is contradicted with the previously collected empirical data (i.e. Reuer 2001; Mata & Portugal 2015). In addition, based on the study, the labor cost determinant was not essential for the case companies. This finding challenges the arguments explained by Nyuur and Debrah (2014). The authors found the relationship between labor cost and IJV termination. Further, the co-opetition determinant was negligible in the context of the aforementioned case companies. This finding was contrary to Park & Ungson (1997) finding who stated that the direct competitor can not be adequate partner in the target country.



## 6.2 Theoretical implications

As it was stated before, determinants of IJVs termination mode choice is the new topic and there is limited amount of researches related to the topic. This thesis has several significant theoretical implications. Firstly, the study contributes to fulfill the research gap of the determinants affecting on the IJV termination mode choice. There were previous investigations in determinants of termination mode (e.g. Meschi 2005; Hennart et al. 2002) but researchers did not relate determinants to particular termination modes. However, this multiple-case study provides understanding of aspects influencing particular termination mode (i.e. liquidation, sell-off or acquisition).

Secondly, the study was able to identify determinants of IJV termination mode choice and classify them in four levels, namely, firm, IJV, inter-partner and host country levels. Each of them has unique influence on the termination mode choice.

Finally, the impact of firm, IJV, inter-partner and host country level factors in the process of IJV termination was investigated. The original IJV termination theory-related studies were focused on some level factors. However, previous researches were not focus on the studying all factors together and on its influence on IJV termination.

## 6.3 Managerial implications

The thesis provides several managerial implications. These implications would be especially interesting for companies' board of directors at formation of IJV and at termination of IJV stages. First of all, the thesis will help companies at the stage of planning IJV. As Mata and Portugal (2015) claimed, at the IJV formation stage, the majority of international companies do not take into account the fact that one day one of the partners may decide to end IJV. Particularly, the termination method should be carefully prescribed in the IJV formation contract. This assumption is supported by empirical finding of the thesis. Such as carefully prescribed IJV formation contract simplified termination of Company X. Mr. Nyfors also emphasizes this factor: "... when you enter IJV agreement, everything is fine, sun is shining and expectations are big from both partners. However, you can not forget that one day you may want to exit. And that how that process will be handled should be specified in JV formation

*agreement. Normally, companies tend to forget that. You entering the agreement and you think that you will live together for 50 years. But that is not always the case. So, when making JV agreement, focus also on the exit part of that. That is learning point that we had had.”*

Secondly, the study also aims to warn companies on the IJV creation if this creation includes certain factors. For example, if a parent company is not stable in case of the strategy (Cui et al. 2011; Panibratov & Brown 2018), the establishment of an IJV is not recommended. This assumption is supported by Wärtsilä case when the parent company has decided to change strategy in the middle of WTMH operation. At the same vein, when the target country has high level of political risk (e.g. Reuer 2002; Nielsen 2007), the establishment of IJV also is not recommended. Political instability was very significant aspect in Company Y and WTMH cases. Both of the case companies terminated its IJVs prematurely and due to political instability to varying degrees. Therefore, companies may want to analyze political situation and possible changes of it very carefully before entering the target market.

Thirdly, this study emphasizes the importance of a partner in IJVs. Such determinants as communication (Ali 2013), trust (Pajunen & Fang 2004) and conflict (Gomes-Casseres 1987) should especially be taken into account. All of the case companies emphasize small issues in communication and some disagreements over the operation of IJVs. However, aforementioned factors did not have the main influence on the termination mode choice in all of the cases. Unfortunately, it is impossible to entirely predict partner companies' behavior in certain situations but it is worth to check previous international operation of possible partner companies. That may help to get basic understandings about the partner companies and its possible behavior.

Finally, the aspects which may rise during the operation of IJV in the target market should be also carefully analyzed. Such factors as cultural distance and market size (Ravenscraft & Scherer 1991; Wheeler & Moody 1992) may be forecasted. Nevertheless, there are a few determinants which may change rapidly and that is hard to forecast them. Such determinants are, for example, labor cost increase or decrease (Nyuur & Debrah 2014), competition increase and decrease (Kogut 1989; Makino et al. 2007). Company X and Company Y have faced with competition increase and decrease

respectively. However, in Company Y case, the decrease of the competition was more side effect of political risk, while, in Company X case, increased competition indicates the interest in Austrian chalk production market.

#### 6.4 Suggestions for future research

This study is very perspective and provides several opportunities for future investigation. Due to the research topic novelty, there are several research gaps in determinants of IJV termination mode choice sphere:

1. Future research should investigate IJVs from the same country/region. This specification should give more accurate data in host country level factors.
2. Future research may be focused on parent firms from a single country. This specification expands the accuracy of empirical data in firm level factors
3. It was also identified that industry level factors influence on the termination method. For example, WTHC and IJV X were not able to start operation immediately after the target market entries as it took time for factories planning and construction. However, IJV Y was able to start operation almost immediately as there was no factory construction required. Therefore, future research should be focused on industry level factors as well.
4. Future research should be focused on different range of companies (small-, medium- and large-sized companies) as they have different capabilities and opportunities.

#### 6.5 Limitations

There were also a several limitations identified in this study. Firstly, the results are limited to describing only one side of the former IJVs. Taking interviewees from both sides of the IJVs would show both former partners' points of views. Secondly, collection of empirical data includes only one interview per case company. The possibility to collect 2-3 interviewees per case company would increase the objectivity as the thesis contain only one point of view on the determinants of IJV termination mode choice per each case company. Furthermore, all of the investigated IJVs were

operating in the Europe. An attempt to apply the framework of this study in other continents may enrich data.

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## APPENDICES

### APPENDIX 1. Interview questions.

#### SEMI-STRUCTURED QUESTIONS FOR INTERVIEW

- 1) Company name:  
\_\_\_\_\_
- 2) Interviewee's name:  
\_\_\_\_\_
- 3) Interviewee's title:  
\_\_\_\_\_
- 4) Name of IJV and location:  
\_\_\_\_\_
- 5) Year of IJV formation:  
\_\_\_\_\_
- 6) Partner company name:  
\_\_\_\_\_
- 7) Ownership split between partners at formation of IJV:  
\_\_\_\_\_
- 8) Were there any legal restrictions on foreign ownership in target country at the time of IJV formation? \_\_\_\_\_
- 9) Which year your company terminated the IJV:  
\_\_\_\_\_
- 10) How the IJV was terminated: **a)** became a wholly owned subsidiary of your firm, **b)** became a wholly owned subsidiary of partner firm, **c)** sold to a third party, **d)** closed down.
- 11) While forming the IJV, was the termination mode of the IJV specified in IJV contract? \_\_\_\_\_

#### **Background information:**

- 12) What are your firm's major business lines at the IJV formation stage and IJV termination stage? \_\_\_\_\_
- 13) Total number of employees in your firm at the time of IJV formation and at the time of IJV termination (Rough estimate):  
\_\_\_\_\_
- 14) How many manufacturing IJVs and WOSs your company had before forming this IJV? \_\_\_\_\_ How many were in the target country? \_\_\_\_\_ How many in the target region? \_\_\_\_\_
- 15) What were your firm's operations in the target country before forming this IJV? \_\_\_\_\_ (No prior activity, sales office, licensing agreement, exporting, a manufacturing JV, a manufacturing WOS, several manufacturing units, or other operations)
- 16) Had your firm financial problems during the operations of the IJV?  
\_\_\_\_\_
- 17) Had your partner firm financial problems during the operations of the IJV?  
\_\_\_\_\_

- 18) To what extent has your firm supported the IJV? 1) very low 2) low 3) medium 4) high 5) very high

**Company background information:**

- 19) What is your partner firm's major business line?  
\_\_\_\_\_
- 20) Average number of employees in partner firm:  
\_\_\_\_\_

**IJV information**

- 21) Was the IJV operating in the same business line as that of your firm? (or what is the major business line of the IJV): \_\_\_\_\_
- 22) Was the joint venture a new separate firm established or you partially acquired the partner firm?
- 23) Did you firm seek for another ownership share (e.g., 100% Greenfield investment, acquiring 100% of partner firm, or another ownership share in IJV at the formation stage of IJV?
- 24) Total number of employees in IJV:  
\_\_\_\_\_
- 25) Number of employees from your firm to IJV: \_\_\_\_\_
- 26) When firms form IJVs, they usually made some important investments in the IJVs. What kind of resources have your firm and partner firm invested in the IJV (e.g., Basic R&D, production related technology, brand names/trademarks, distribution channels to local market and international markets, local market knowledge, raw material, HR, capital)?
- 27) How do you assess your firm's need of partner's resources at the time of IJV formation and at the time of IJV termination? \_\_\_\_\_
- 28) Suppose if IJV was dissolved after two months of formation, then to what extent you use these invested resources elsewhere? 1) very low, 2) low, 3) medium, 4) high, 5) very high
- 29) How satisfied was your firm with the financial performance of IJV? 1) very low 2) low 3) medium 4) high 5) very high.
- 30) How satisfactory was your firm's relationship with partner firm? 1) very low 2) low 3) medium 4) high 5) very high.
- 31) To what extent has your firm achieved IJV objectives? 1) very low 2) low 3) medium 4) high 5) very high
- 32) Did your firm or partner firm prematurely achieved the IJV objectives?  
\_\_\_\_\_

**Target country information:**

- 33) Why did your firm choose to invest in this country?
- To gain low-cost input factors (e.g. raw material)
  - To get access to cheap labor
  - To serve the country local market
  - Because of the purchasing power of customers
  - Because of prospects of market growth
  - Access to regional markets
  - Better resources and capacity usage
  - To gain strategic assets (technology, access to distribution channels, target country knowledge)
- 34) Would you consider that the motives to invest in target country were still the same at the time of IJV termination?
- 35) How did your firm perceive the target market at the time of IJV formation and at the time of IJV termination:
- Culture at the time of IJV formation (1: Very different, 2: different, 3: neutral, 4: similar, 5: very similar)
  - Culture at the time of IJV termination (1: Very different, 2: different, 3: neutral, 4: similar, 5: very similar)
  - Political risk/instability at the time of IJV formation (1: very small, 2: small, 3: medium, 4: high, 5: very high)
  - Political risk/instability at the time of IJV termination (1: very small, 2: small, 3: medium, 4: high, 5: very high)
  - Market size at the formation of IJV formation (1: very small, 2: small, 3: medium, 4: high, 5: very high)
  - Market size at the time of IJV termination (1: very small, 2: small, 3: medium, 4: high, 5: very high)
  - Level of competition at formation of IJV (1: very small, 2: small, 3: medium, 4: high, 5: very high)
  - Level of competition at termination (1: very small, 2: small, 3: medium, 4: high, 5: very high)
  - Labor Cost at the time of IJV formation (1: very small, 2: small, 3: medium, 4: high, 5: very high)
  - Labor cost at the time of IJV termination (1: very small, 2: small, 3: medium, 4: high, 5: very high)

**Inter-partner information:**

How much did your firm trust the partner firm? 1) very low 2) low 3) medium 4) high 5) very high

To what extent the partner firm was involved in following behavior during the operations of IJV (e.g., altering facts, breaking promises, presenting incomplete information, breaching contract, appropriating technology, supplying sub-standard, and overpriced material)? 1) very low extent 2) low extent 3) medium extent 4) high extent 5) very high extent

Overall the quality of communication between your firm and partner firm was: 1) very low 2) low 3) medium 4) high 5) very high

Were there significant disagreements/conflicts between you and your partner firm during the operations of the IJV? \_\_\_\_\_



**More specific reasons for IJV termination**

What factors motivated your firm to terminate the IJV and choose the specific termination mode?