



# Cultural bridging and the performance of international joint ventures

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## ARTICLE INFO

### Keywords:

Cultural distance  
International joint ventures  
IJV performance

## ABSTRACT

The existing predictions and findings regarding the effect of cultural distance on the performance of international joint ventures (IJVs) remain inconsistent. We suggest that this inconsistency is due to the lack of conceptually differentiating the cultural distance between the firm's home country and its partner(s)' country (home-partner country cultural distance) from the cultural distance between the firm's home country and the location of the IJV (home-host cultural distance). We contribute to our understanding of IJVs by explicitly differentiating these two types of cultural distance, and by introducing the concept of cultural bridging. Cultural bridging relates to the proportion of home-host cultural distance that is compensated by having a joint venture partner, whose home country culture is more similar to the host country culture than the MNE's home country culture is to the host country culture. We theorize how cultural bridging affects IJV performance and how it interacts with *home-partner country cultural distance* and *home-host cultural distance* to influence IJV performance. We test our hypotheses using a sample of 1708 IJVs. We find that cultural bridging has a positive influence on IJV performance, strengthens the positive performance effect of *home-host cultural distance*, and reduces the negative performance effect of *home-partner country cultural distance*. Our findings help make sense of some of the inconsistent findings regarding the role that cultural distance plays for IJV performance.

## 1. Introduction

The continuing importance of international joint ventures (IJVs) as a foreign operation mode for multinational enterprises (MNEs) over the past decades is paralleled by evidence that they perform worse than other forms of operating in a foreign market (see, for example, Bamford, Baynham, & Ernst, 2020; Nippa & Reuer, 2019). Cultural distance has been identified as a key determinant of the performance of IJVs and scholars have presented compelling theoretical arguments not only for negative, but also for positive performance effects of cultural distance, often drawing on the same theoretical basis (see, for example, Reus & Rottig, 2009; Robson, Leonidou, & Katsikeas, 2002). Empirical results for the effect of cultural distance on the performance of IJVs also remain inconclusive, providing evidence for both positive and negative effects (for an overview, see, for example, Reus & Rottig, 2009).

We suggest that the major reason for these inconsistencies in the existing theoretical arguments and empirical findings is the failure to account for the fact that firms operating overseas via an IJV face two related, but distinct cultural challenges (Lee, Shenkar, & Li, 2008). First, firms engaged in an IJV operate in a foreign environment and thus have

to deal with the *home-host cultural distance*, i.e., the cultural distance between the firm's home country and the host country. Second, firms engaged in an IJV work with a partner from a different cultural background and thus face a *home-partner country cultural distance*, i.e., the cultural distance between the firm's home country and the partner's home country. The fact that existing research rarely, if at all, distinguishes between these two levels at which cultural distance exists in IJVs is problematic. Prior research has regularly ignored this distinction and has focused on IJVs in which an MNE's partner firm is located in the same country as the IJV itself, i.e., it focuses on IJVs with local partners (see, for example, Jin & Wang, 2021). Some studies have even gone to the extent of explicitly defining IJVs as joint ventures between foreign and local firms (Meschi & Riccio, 2008). In the case of such IJVs with local partners, the cultural distance between the firm's home country and the partner's home country is identical to the cultural distance between the firm's home country and the host country, conflating any effects of the former with those of the latter.

Although firms can select a local JV partner, firms often choose partners from third countries that are assumed to be more familiar with the host country than they are. There is evidence that IJVs with a host

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<https://doi.org/10.1016/j.ibusrev.2023.102109>

Received 17 October 2021; Received in revised form 30 January 2023; Accepted 3 February 2023

Available online 16 February 2023

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country partner account for only a fraction of total IJVs (Chiao, Yu, & Peng, 2009; Hanvanich, Miller, Richards, & Cavusgil, 2003; Konara & Yang, 2022; Makino & Beamish, 1998). For example, looking at 236 cases, in which Taiwanese firms engaged in IJVs in China, Chiao *et al.* (2009) find that Taiwanese-Chinese IJVs account for only 35% of these IJVs with the remaining IJVs not having a local partner firm. There is therefore variation in the degree to which an IJV partner allows for bridging the cultural distance that exists between the firm's home country and a particular host country. We define "cultural bridging" as the proportion of home-host cultural distance that is compensated by having a joint venture partner, whose home country culture is more similar to the host country culture than the MNE's home country culture is to the host country culture. Cultural bridging is thus 100% in the case of a joint venture with a host country firm. In contrast, cultural bridging is between 0% and 100% in the case of a joint venture with a third-country partner or zero if the firm has a joint venture with a partner from its home country. We therefore examine the following research question (1) *How does the degree of cultural bridging affect the performance of IJVs?*

Prior research has argued that *home-host cultural distance* negatively affect the transfer of resources, capabilities, skills, and practices, etc. (Anderson & Gatignon, 1986; Björkman, Stahl, & Vaara, 2007; Buckley & Casson, 1976; López-Duarte & Vidal-Suárez, 2010; Park & Ungson, 1997; Petersen, Pedersen, & Lyles, 2008; Xu & Shenkar, 2002), but may also provide arbitrage opportunities arising from differences in terms of routines and repertoires between the host- and the home-country (Björkman, *et al.*, 2007). The cultural bridging possible through the IJV partner can reduce the costs and difficulties resulting from the internationalizing firm's liability of foreignness and enhance its ability to exploit arbitrage opportunities. Therefore, cultural bridging is likely to interact with home-host cultural distance such that cultural bridging reduces the negative effects and enhances the positive effects of home-host cultural distance. Our second research question is thus (2) *How does cultural bridging interact with home-host cultural distance in affecting IJV performance?*

A firm's choice of host country determines the *home-host cultural distance*, but the firm's choice of IJV partner determines the *home-partner country cultural distance* that the firm will face. Cultural bridging allows the MNE to reduce the costs and difficulties associated with dealing with a culturally distant host country, partially replacing them with the costs and difficulties associated with managing and coordinating operations with a culturally distant IJV partner. Because such partner-related costs also affect IJV performance, cultural bridging is likely to interact with *home-partner country cultural distance* in determining IJV performance. Importantly, however, while an increase in cultural bridging is always associated with larger home-partner country cultural distance, an increase in *home-partner country cultural distance* does not necessarily lead to an increase in cultural bridging. To understand how cultural bridging affects the performance implications of *home-partner country cultural distance*, we thus address our third research question: (3) *How does cultural bridging interact with home-partner country cultural distance in affecting IJV performance?*

We test our three hypotheses using a dataset containing 1708 IJVs that internationalizing firms established with (1) a local partner in the host country; (2) with a partner from the same home country; or (3) with a partner from a third country. In contrast to previous studies that have focused on IJVs with local firms, i.e., host-country partner firms, this sample allows us to disentangle the effects of home-host and home-partner country cultural distance, both theoretically and empirically.

By addressing our research questions, we contribute to a better understanding of the effect of cultural distance on the performance of IJVs in the following ways. *First*, we enhance the literature on IJVs by introducing the notion of cultural bridging and by conceptualizing its effects on the performance of IJVs. In so doing, we add to IB research by responding to calls for more research into the "bridging, brokerage or boundary spanning function" of IJV partners with regard to cultural

distance (Nippa & Reuer, 2019: 575).

Second, we fill a gap in the existing literature on IJVs, which so far has predominantly theorized about the performance effects of foreign-local IJVs, where the MNE's partner is a host-country based firm and home-host cultural distance and home-partner country cultural distance are thus identical. Because of this lack of differentiation, extant research has attributed little importance to whether positive or negative performance effects are due to home-host cultural distance or because of home-partner country cultural distance. Yet, the samples used in prior studies (Chiao, *et al.*, 2009; Hanvanich, *et al.*, 2003; Konara & Yang, 2022; Makino & Beamish, 1998) and the dataset we use in our study show that a significant share of IJVs do not include a host-country/local partner, but rather a partner from the home country or a third country. Including IJVs without a local partner allows us to disentangle the performance effects of home-host vs. home-partner country cultural distance.

Third, we contribute to our understanding of the effects of cultural distance on IJV performance by clarifying how cultural bridging interacts with, respectively, home-host cultural distance and home-partner country cultural distance in affecting IJV performance. We extend the literature by suggesting that these two effects need to be differentiated and studied simultaneously, and arguing that these two may have different moderating effects. In so doing, we contribute to a more contextualized explanation of the effect that cultural distance may have on IJV performance.

## 2. Theoretical background and hypotheses

### 2.1. Home-host cultural distance, home partner country distance, and IJV performance

In the past, IB research has focused on the cultural distance between a firm's home country and the host country (*home-host cultural distance*) and has investigated how this distance negatively affects the performance of a subsidiary. This distance would create knowledge gaps and information asymmetries between the MNE and the local environment and local actors (Anderson & Gatignon, 1986; López-Duarte & Vidal-Suárez, 2010; Petersen, *et al.*, 2008; Xu & Shenkar, 2002) and create difficulties in the transfer and redeployment of resources, capabilities, skills, and practices (Anderson & Gatignon, 1986; Björkman *et al.*, 2007; Buckley & Casson, 1976; Park & Ungson, 1997). Because of a poor understanding of social norms, values, beliefs and assumptions in the host country culture, firms will have to incur higher transaction costs to adapt to the different cultural environment. Various studies on overseas subsidiaries have highlighted the negative effects of cultural distance on subsidiary performance (Beugelsdijk, Kostova, Kunst, Spadafora, & Essen, 2018).

Although most of the existing research emphasizes the negative effects of cultural distance, recent research has begun to stress the positive effects of cultural distance (e.g. Björkman *et al.* (2007), Stahl and Tung (2015) and Stahl, Tung, Kostova, and Zellmer-Bruhn (2016)). In the context of overseas acquisitions, cultural differences can also be an asset, rather than merely a liability, by enhancing the combination potential for an MNE's capabilities (Björkman, *et al.*, 2007; Wang, Hain, Larimo, & Dao, 2020). Differences in culture provide a basis for differentiation and the larger the cultural distance between the host-country and the home-country, the greater the differences in terms of routines and repertoires in the host-country and the home-country (Morosini, Shane, & Singh, 1998). Such differences can provide arbitrage opportunities for MNEs operating in culturally distant countries. MNEs can also combine different routines and repertoires used in different markets, which can be a source of competitive advantage, as a result, positively enhancing firm performance.

A second stream of IB research has explored the cultural distance between a firm's home country and the country of a business partner's home country (*home-partner country cultural distance*), which may be

different from a particular host country. Because of their imprinting by the particular national cultural background of their home countries, the strategic orientations, organization structures, management styles, firm values and business practices will reflect their national cultural background (Dhanaraj & Beamish, 2004; Hennart & Zeng, 2002; Hitt, Dacin, Tyler, & Park, 1997; Kogut & Singh, 1988; Lubatkin, Calori, Very, & Veiga, 1998). The cultural distance between the partner firms' home countries affect the performance of IJVs by increasing the communication, coordination and control costs (Beugelsdijk, et al., 2018) (Hennart & Zeng, 2002) and making conflicts more likely (Hennart, Kim, & Zeng, 1998; Reus & Rottig, 2009) Such differences also increase transaction costs for learning and acquiring information and knowledge from the other party and adopting diligence process and undertaking intensive cross-cultural communications (Estrin, Baghdasaryan, & Meyer, 2009). Home-partner country cultural distance also increases the perceived likelihood of opportunistic behavior and thus negatively affect IJV performance either directly or by increasing the transaction costs associated with monitoring the partner to prevent opportunistic behavior (Reus & Rottig, 2009).

However, home-partner country cultural distance could also have a positive effect on the IJV performance. As firm's routines and repertoires are shaped by national cultures (Slangen, 2006), differences in culture provide a basis for differentiation and the larger the cultural distance between partners' home countries, the greater the differences in terms of routines and repertoires possessed by firms of different country-of-origin (Morosini, et al., 1998). Therefore, home-partner country cultural distance can enhance the combination potential of partner capabilities.

### 2.2. Cultural bridging and IJV performance

The concept of cultural bridging builds on the suggestion that the cultural distance between a firm's home country and a particular host country may not be the only relevant cultural distance that the internationalizing firm has to deal with. We suggest that the extent of cultural unfamiliarity that an MNE faces when operating an IJV in a host country will also depend on how similar the IJV partner's cultural background is to the host country's culture. We suggest that the cultural unfamiliarity that the MNE face is lower when they have an IJV partner that is culturally closer to the host country. One key motivation for establishing an IJV is to have a partner that can help the MNE bridge the cultural gap between its own and the host country's cultural context and mitigate against the negative effects of operating in a culturally distant environment (Anand & Delios, 1997; Gatignon & Anderson, 1988). The IJV literature suggests that having a local partner that is familiar with the host country environment allows MNEs to draw on the knowledge and skills of the IJV partner. In order to capture this effect, we conceptualize cultural bridging as the proportion of home-host cultural distance that is compensated by having a joint venture partner, whose home country culture is more similar to the host country culture than the MNE's home country culture is to the host country culture.

Cultural bridging reaches its maximum when the IJV partner is a local partner, i.e., a partner based in the host-country. In this case, the proportion of home-host cultural distance that is bridged by having an IJV partner is 100%. This is the case that has been highlighted in prior research focusing on IJVs between MNEs and local partners. In this case, the MNE relies on the local IJV partner's familiarity with the host country culture allowing for a complete bridging of the cultural distance between the host country and the MNE's home country. In contrast, the extent of cultural bridging is zero when an IJV partner is from the same home country as the MNE.

We will use one of the IJVs in our sample to illustrate the concept of cultural bridging: an MNE (F, MNE's home country) from Sweden having an IJV in Italy (H, host country) with a partner from Germany (P, partner firm's home country) (Fig. 1). If there was no IJV partner, the Swedish firm faces a cultural distance of 3.9 as the cultural distance between the host country (Italy) and the home country would be 3.9

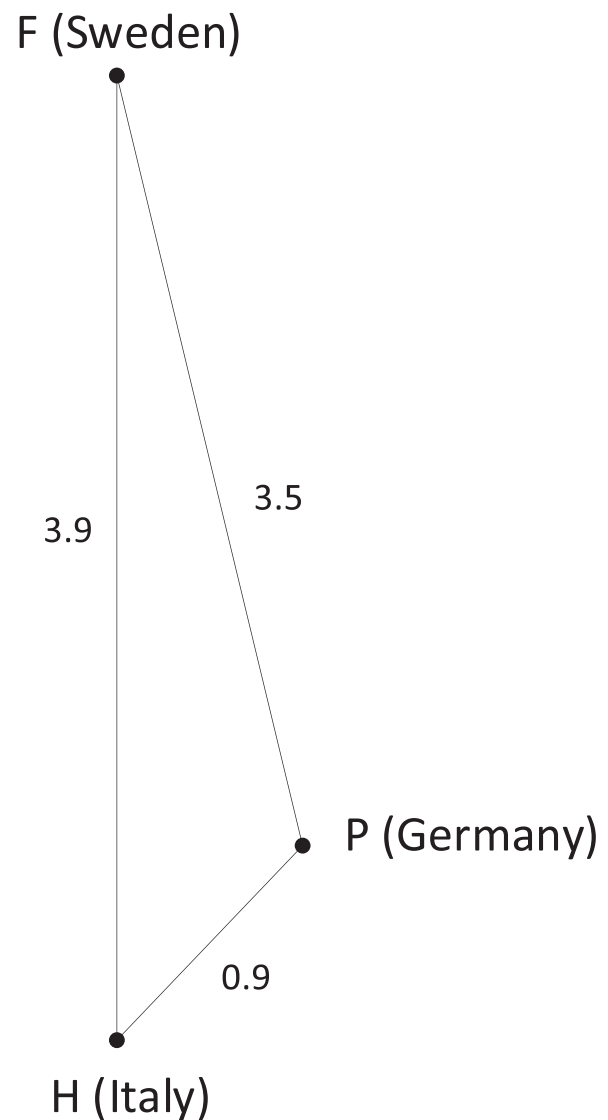


Fig. 1. An illustration of cultural bridging in IJVs based on a tri national IJV.

based on four dimensions of Hofstede's cultural values. However, by partnering with a German partner, the Swedish MNE can bridge, or reduce a proportion of this home-host cultural distance (between Sweden and Italy), because Germany is culturally closer to the host country Italy. By partnering with a German firm whose cultural distance to Italy is only 0.9, the Swedish firm can reduce the cultural distance to the host country from 3.9 to 0.9. The difference between the firm-host (FH) cultural distance (3.9) and the partner-host (PH) cultural distance (0.9) would be the cultural distance that is 'reduced' (cultural bridging) by having the German partner. By having the German partner, the Swedish MNE is able to reduce 77% of the cultural distance to Italy.

Next, we extend this basic illustration to capture all the different cultural configurations that can exist in IJVs. In Fig. 2, F denotes the MNE's home country and H denotes a culturally distant host country i.e., the location of the IJV. P denotes the IJV partner's home country,<sup>1</sup> which may be the host country in the case of P3, the MNE's home

<sup>1</sup> For ease of illustration, we use the same notation to refer to the partner and the partner's home-country, i.e. we denote P's home-country as country P.

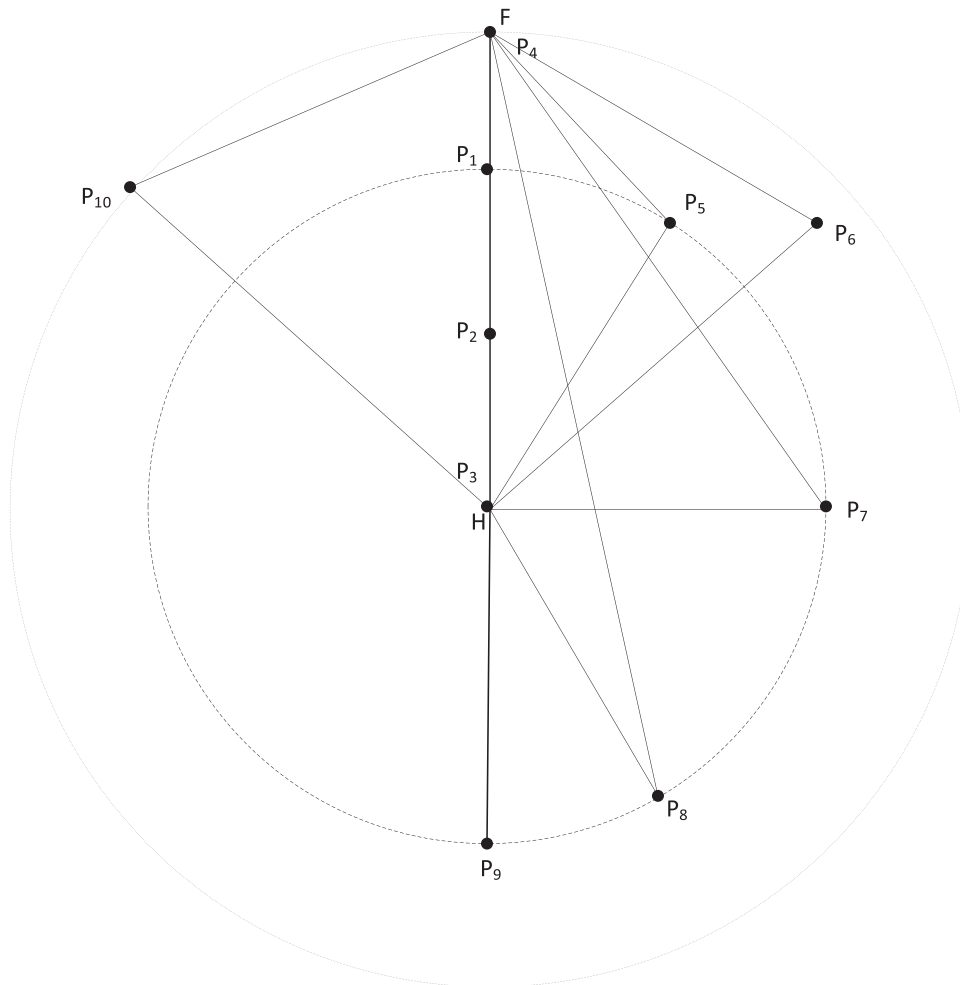


Fig. 2. Home-host cultural distance, home-partner country cultural distance and cultural bridging in IJVs.

country in the case of P4 (P4 = F), or a third country (P1, P2, P5, P6 etc.).<sup>2</sup>

If the MNE (from country F) selects P1 as the partner, P1 can “bridge” a part of the MNE’s home-host cultural distance (FH) because P1’s home country is culturally closer to the host country than the MNE’s home country F, i.e., P1H is smaller than FH. In this case, by having the joint

possible through an IJV partner.

$$\text{For the specific case of } P_1; \text{ Cultural bridging} = \frac{(FH - P_1H)}{FH}$$

Similarly, for a general case, we define cultural bridging as follows:

$$\text{Cultural bridging} = \frac{(\text{CD between country F and the host country} - \text{CD between country P and the host country})}{\text{CD between country F and the host country}}$$

venture partner P1, the firm – through the IJV – will only have to deal with the (culturally closer) partner’s cultural distance to the host country, i.e., P1H. Through the IJV, the MNE can thus eliminate FH-P1H from the cultural distance. The following ratio thus reflects the share of the cultural distance between a firm’s home country and the location of the IJV that is eliminated through having a partner that is culturally closer to this location. This ratio reflects the level of cultural bridging

$$\text{Cultural bridging} = \frac{(FH - PH)}{FH}$$

If P comes from the same home country of the MNE (F) or culturally similar country to MNE’s home country (P4), then FP4 (home-partner country distance) = 0 and FH = P4H. In this case, the cultural bridging is equal to zero. If P comes from the host country or culturally similar country to host country (P3), then P3H=0 and FP3= FH . In this case, the cultural bridging is equal to one: the entire home-host cultural distance faced by the MNE is bridged by having a local partner. This is the case investigated by most of the existing research on IJVs.

If the firm has an IJV with P2 instead of P1 as the partner, the cultural bridging increases as P1H reduces to P2H. However, the home-partner

<sup>2</sup> The distance between the IJV partner’s home country and the host country (PH) can be larger than the distance between F and H (FH), in which case the firm might bridge the cultural distance between its IJV partner’s home country and the location of the IJV H. For simplicity, we consider the situation where the cultural distance between the IJV partner’s home country (P1, P2, P5, P6 etc.) and H (PH) does not exceed the cultural distance between F and H (FH).

country distance increases from FP1 to FP2. Therefore, when P moves (away from F) towards the host (along FH line), both, the cultural bridging as well as the home-partner country cultural distance increases. In this case, the increase in home-partner country cultural distance directly contributes to an increase in the cultural bridging.

When P moves from P1 to P5, P7, P8 and P9 (where  $P_5H = P_7H = P_8H = P_9H$  and center H), the cultural bridging remains the same (as the cultural distance between the partner's (P's) home country and the host country H remains the same). Crucially, however, the home-partner country distance FP ( $FP_1, FP_5, FP_7, FP_8$  and  $FP_9$ ) increases. P9 is the extreme case with the largest home-partner country distance for the given cultural bridging. In all these cases, home-partner country cultural distance increases without contributing to an increase in the cultural bridging. For example, if we compare P1 vs P8, although both cases have the same bridging effect, home-partner country cultural distance is significantly higher in the case of P8 ( $FP_8$ ) than in the case of P1 ( $FP_1$ ).

Another interesting example where home-partner country cultural distance increases without contributing to an increase in the cultural bridging is when the MNE has a joint venture with P10 (or any point on the outer circle) instead of P4 (home country partner): in this case there is no cultural bridging effect while home-partner country cultural distance increases. When P moves from  $P_5$  to  $P_6$  (i.e., the MNE has an IJV with  $P_6$  instead of  $P_5$ ), then the home-partner country cultural distance increases (as FP increases) and the cultural bridging decreases (as PH increases). In such cases, greater home-partner country cultural distance is associated with a lower, rather than a higher cultural bridging. Therefore, as these cases illustrate, while an increase in cultural bridging is always associated with an increase in home-partner country cultural distance, the reverse is not true, i.e., an increase in home-partner country cultural distance does not necessarily lead to an increase in cultural bridging.

Foreign firms operating in culturally distant environments may incur higher transaction costs arising from search/negotiation efforts and face greater difficulties in accessing local knowledge, critical resources, and tapping opportunities. An IJV partner that originates from a culture closer to the host country culture can help mitigate some of these barriers/costs. The cultural bridging reflects the degree to which the MNE's JV partner is able to eliminate the negative effects associated with the home-host cultural distance between the MNE's home country and the host country of the IJV. A large cultural bridging implies that the culture of the MNE's JV partner is closer (or similar) to the host country's culture. The MNE's JV partner will thus be useful in reducing or eliminating the problems associated with the liability of foreignness experienced by the MNE. A large cultural bridging means that the MNE's IJV partner is knowledgeable about the idiosyncrasies of local buyers, suppliers and other stakeholders, allowing for better adjustment of the MNE's firm-specific advantages, operations and strategies to the requirement of the host country. A large cultural bridging thus reduces the likelihood of erroneous decisions and subsequent remedies and allows for a better realization of the benefits resulting from the combination of the MNE's assets and particular host-country conditions. Overall, the extent of the cultural bridging should thus positively (and directly) affect IJV performance. Accordingly, we formulate the following hypothesis:

**H1.** *Cultural bridging has a positive effect on the performance of an IJV.*

### 2.3. Cultural bridging, home-host cultural distance and IJV performance

As argued before, home-host cultural distance can have both positive and negative effects on IJV performance. As proponents of transaction value approach argue, to pursue transaction value, one may have to incur higher transaction costs (Zajac & Olsen, 1993). Therefore, on the one hand, MNEs can benefit from arbitrage opportunities by operating in culturally distant countries, i.e., create transaction value through such differences. However, in so doing they will have to incur higher

transaction costs in culturally distant countries. We suggest that by having a partner that is familiar with the host-country culture (i.e., a partner that allows for cultural bridging), MNEs can enhance transaction value created through the arbitrage benefits arising from home-host cultural distance, while mitigating against the transaction costs arising from the home-host cultural distance. Because the home-host cultural distance determines the cultural distance that needs to be compensated for by cultural bridging, it will interact with cultural bridging in affecting IJV performance.

First, MNEs can use IJVs to mitigate the aforementioned negative effects of cultural distance. One of the main rationales for establishing an IJV is to have a partner firm that helps minimize the negative effects of large home-host cultural distance. Prior research suggests that having a partner that is familiar with the host country environment allows the internationalizing firm to draw on the knowledge and skills of the IJV partner. This allows for a reduction in information asymmetries regarding the local environment and local actors. Having a partner that is familiar with the host country environment also facilitates the transfer, adaptation and application of the partner firms' resources, capabilities, skills and practices (Mohr, Wang, & Fastoso, 2016; Morosini et al., 1998). These arguments suggest that cultural bridging positively interacts with home-host cultural distance in affecting IJV performance.

Second, as mentioned above, greater home-host cultural distance allows the IJV to access resources that are more likely to be unique and less likely to be available in the host country. Thus, the value of an MNE's resources, capabilities and processes may become more unique and thus valuable with an increase in cultural distance between the home and the host country. The transferability and applicability of these different resources, routines and repertoires can be augmented with the help of an IJV partner that can facilitate cultural bridging. In these cases, the MNE's assets of foreignness (Brannen, 2004; Nachum, 2010; Sethi & Guisinger, 2002) are likely to become more valuable leading to enhanced performance of the IJV. Having an IJV partner that can facilitate cultural bridging may allow the MNE to develop the processes and obtain the skills that enable the conversion of a liability of foreignness into a competitive advantage in the local environment (Sethi & Guisinger, 2002) by effectively bridging these different resources, routines and repertoires to the local setting. Home-host cultural distance is therefore likely to interact with cultural bridging to affect IJV performance.

**H2.** *Home-host cultural distance and cultural bridging positively interact in affecting IJV performance.*

### 2.4. Cultural bridging, home-partner country cultural distance and IJV performance

Although a partner that is familiar with the host-culture mitigates the negative effects of home-host cultural distance, prior research highlights that an IJV with a local partner shifts the cultural interface from between the foreign firm and the local environment to between the foreign firm and its local partner. Because this (internal) cultural interface increases internal transaction costs, home-partner country cultural distance will negatively affect IJV performance, which is in line with prior research on the effects of the (undifferentiated) cultural distance on IJV performance. Therefore, the existence of home-partner country cultural distance is a prerequisite for cultural bridging. However, home-partner country cultural distance and cultural bridging are likely to interact in affecting IJV performance because cultural bridging may compensate for the (negative) effects of home-partner country cultural distance on IJV performance.

We suggest that the challenges and complexities arising from home-partner country cultural distance increase further when cultural bridging is low or non-existent. First, as shown in Fig. 2, while an increase in cultural bridging is always associated with an increase in home-partner country cultural distance, the reverse is not true, i.e., an

increase in home-partner country cultural distance does not necessarily lead to an increase in cultural bridging. Therefore, home-partner country cultural distance can increase without contributing to an increase in cultural bridging. This means that when home-partner country cultural distance increases without contributing to an increase in cultural bridging, the negative implications of home-partner country cultural distance can amplify. This is because, when cultural bridging is lower, the contribution that the IJV partner can bring in to deal with cultural idiosyncrasies in the host country is less, thereby reducing the utility of the partner and limiting the positive implications of home-partner country cultural distance, i.e., negative effects of increased home-partner country cultural distance is not compensated by an increase in cultural bridging. Also, as illustrated in Fig. 2, for a given level of home-partner country cultural distance, IJVs with lower cultural bridging is likely to be more culturally complex than IJVs with larger cultural bridging because in the latter case, larger home-partner country cultural distance is not likely to have contributed to cultural bridging. Lower cultural bridging means that the usefulness of the IJV partner in terms of dealing with cultural idiosyncrasies in the host country is lower and this may also aggravate the tension and conflict between the MNE and the IJV partner. Therefore, we suggest that: Figs. 3 and 4.

**H3. Cultural bridging positively interacts with home-partner country cultural distance in affecting IJV performance.**

### 3. Data and methods

#### 3.1. Data collection

Our panel data was collected from Bureau van Dijk's Amadeus database, which provides firm-level data on companies across the EU. For all the firms in Amadeus database, we collected the information of the top two shareholders in each year. We defined an IJV as a firm in which the top two shareholders cumulatively own at least 85% stake and individually own at least 20% stake,<sup>3</sup> and at least one of them is foreign (from outside the host country).

To make sure that the two partners are legally distinct partner organizations, we checked whether the two partners are in the same group. For each firm, Bureau van Dijk's databases reports global ultimate owner (the ultimate owner for each firm) and we use this information to track the global ultimate owner of the two partner firms. We removed the cases where the same global ultimate owner owns the two IJV partners (Hanvanich, et al., 2003; Konara & Yang, 2022). In order to ensure that the two partners have an active role in management rather than merely being a passive financial investor, we removed all the firms where at least one partner is a financial investor with a minority equity stake (less than a 50% stake). We considered the following types of partner categories as financial investors: banks, financial companies, insurance companies, mutual & pension funds/nominees/trusts/trustees, private equity firms, and venture capital firms.

Further, parent firms may be incorporated in tax havens to minimize their overall tax liability, and in such cases the concept of the home country may not be relevant, particularly for measures such as cultural distance. Based on 11 lists of tax havens compiled by Chavagneux, Murphy, and Palan (2010), Haberly and Wójcik (2015) have produced a list of countries that have 75%, 50% and 25% levels of agreement on tax haven definition. We use the list of countries with a 75% level of agreement, that is, countries that appear in at least 75% of the lists (i.e.,

<sup>3</sup> Prior studies (based on principles used in accounting) have used a 20% threshold to identify IJV partners that have some influence over JV management (Makino & Beamish, 1998). We used an 85% upper cut-off point so the remaining stake in the firm is less than 20% threshold, to make sure that there is no other partner(s) that individually or collectively can make any influence over IJV management.

9 out of the 11 lists), and excluded the firms where at least one partner comes from these countries. Our final sample consists of 1708 IJVs over the 10-year period: 2004 – 2013 representing 24 host countries and IJV-partners originating from 56 home countries. Altogether, there are 4307 firm-year observations.

#### 3.2. Measures

We measured IJV performance by return on equity (ROE), which is our dependent variable. ROE has been used in a vast number of studies as a measure of firm performance (e.g. Klarner & Raisch, 2012; Zahra, Ireland, & Hitt, 2000). In a cross country setting, ROE is a better performance measure compared to return on assets (ROA), as asset turnover depends on the market value of assets, which can vary significantly due to differences in the market value of assets across countries (Chan, Makino, & Isobe, 2010).

To measure the cultural distance between the host-home country and the partners, we constructed a composite variable using the Euclidean method based on Hofstede's four cultural dimensions: power distance, uncertainty avoidance, individualism, and masculinity. The deviations were corrected for differences in the variances of each dimension as follows, where  $CD_{ij}$  is the cultural distance between country  $i$  and country  $j$ .  $I_{ki}$  and  $I_{kj}$  are the values of cultural dimension  $k$  ( $k = 1-4$ ) for country  $i$  and country  $j$ , respectively.  $V_k$  is the variance of the cultural dimension  $k$ .

$$CD_{ij} = \left( \sum_{k=1}^4 \frac{(I_{ki} - I_{kj})^2}{V_k} \right)^{1/2}$$

In line with our conceptual framework, we considered the IJV partner with the largest cultural distance as the focal MNE, and considered its cultural distance to the host country as the home-host cultural distance (HHCD). In situations where both partners have the same cultural distance to the host country, we considered the partner with the largest stake. We calculated the home-partner country cultural distance (HPCD) as the cultural distance between the firm's and the partner's respective home countries. We calculated the partner-host cultural distance as the cultural distance between the partners' home country and the host-country (PHCD). We then calculated the cultural bridging in line with our definition:

$$\text{Cultural bridging} = \frac{(\text{HHCD} - \text{PHCD})}{\text{HHCD}}$$

As control variables, we include firm (IJV)-, industry-, partner-, country-, and bilateral- level variables, all of which could influence the IJV performance. Among the firm level determinants of firm performance, firm's size and age are the two most widely used demographic characteristics of firms (Klarner & Raisch, 2012), therefore we control for the size and the age of the IJV. To control for any curvilinear effect of IJV size, we include both IJV size and squared IJV size (Lu, Song, & Shan, 2018).<sup>4</sup> As intangible assets of the firm can have implications for firm performance, we controlled for intangible assets (as a percentage of total assets) (Chang, Chung, & Moon, 2013; Delios & Beamish, 2001; Kafourous & Aliyev, 2016). We also controlled for the financial leverage of the IJV by including the equity ratio, i.e., total shareholder equity as a percentage of total assets (Hitt, Bierman, Uhlenbruck, & Shimizu, 2006; Lu et al. 2018). The lower the equity ratio is, the higher the leverage of the firm. The extent to which one partner has a dominant ownership over the other has been considered as one of the key determinants of IJV performance (Meschi & Riccio, 2008; Park & Ungson, 1997), therefore we controlled for whether the IJV partners has equal ownership. This

<sup>4</sup> When we first included IJV size in our regressions, the estimated coefficient was not significant, therefore, we included squared IJV size to control for any curvilinear effect.

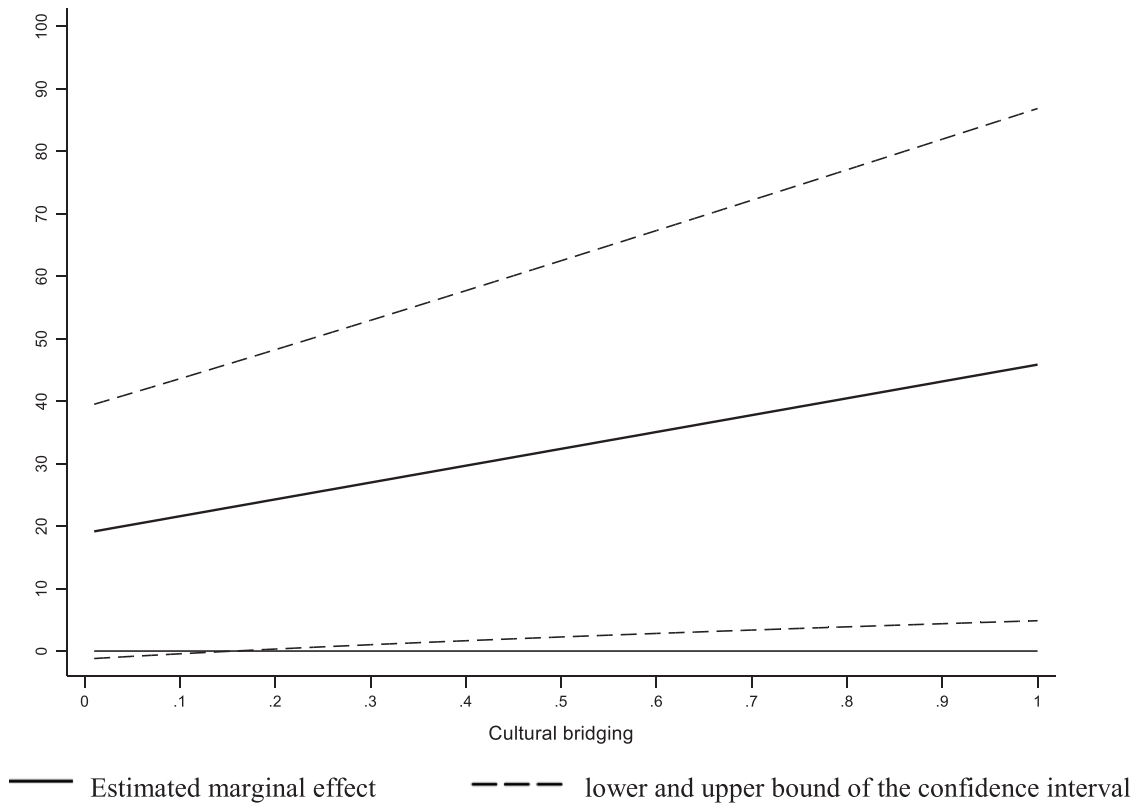


Fig. 3. Marginal effects of Home-host cultural distance on IJV performance.

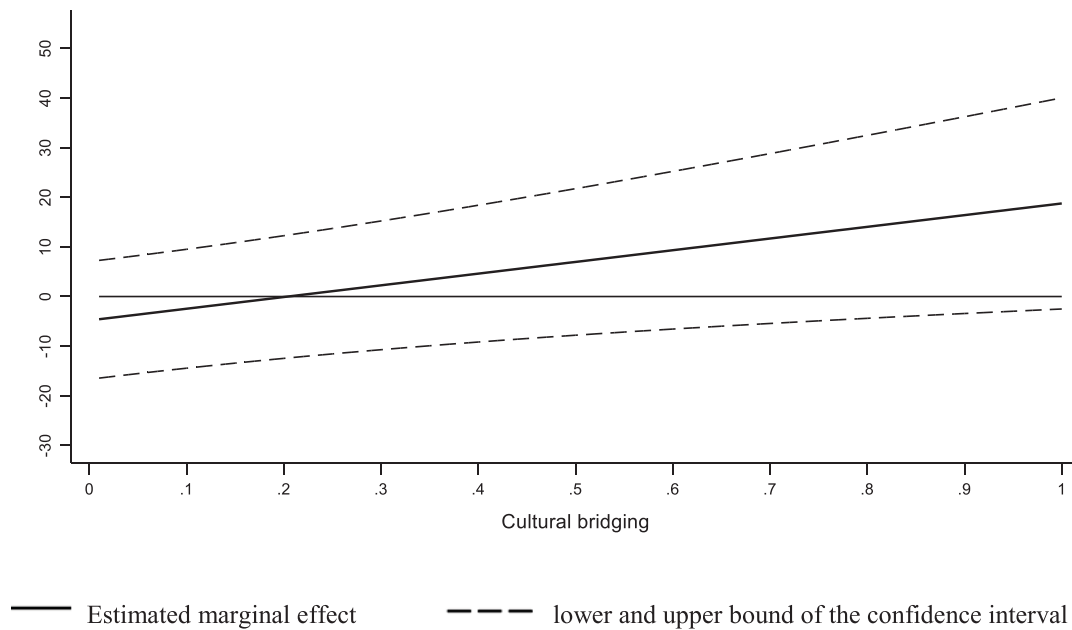


Fig. 4. Marginal effects of Home-partner country cultural distance on IJV performance.

variable takes the value of one if the difference between the two partners' stakes is less than 1% and zero if one partner has at least 1% more ownership than the other. Because an MNE can have multiple subsidiaries in the host country and can gain host country experience through its other sibling subsidiaries in the same host country, we controlled for the focal firms host country experience by the number of subsidiaries (including the IJVs) in the host country. This is in line with prior studies that have used the number of foreign subsidiaries to

measure international experience or number of subsidiaries in a particular region to measure regional experience (Garg & Delios, 2007; Kuo, Kao, Chang, & Chiu, 2012; Li, 1994). To control for the focal firm's collaboration experience, following Gulati, Lavie, and Singh (2009), we controlled for the total number of IJVs (in our sample) of the focal firm. At host-country level, we include GDP growth rate to control for market growth (Lu, et al., 2018). We also controlled for the quality of regulatory institutions (institutional quality) in the host country as institutional

**Table 1**  
Descriptive statistics and correlation matrix.

Variables	Mean	S.D.	Min	Max	Correlation coefficients															
					1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
1 ROE	18.42	177.36	-5690.36	4001.73																
2 Home-host cultural distance	2.22	0.95	0.4	5.82	0															
3 Home-partner country cultural distance	1.8	1.18	0	5.8	-0.03	0.61														
4 Cultural bridging	0.75	0.4	0	1	-0.02	-0.08	0.57													
5 Size	0.1	0.64	0	20.12	-0.01	0.04	-0.02	0												
6 Age	2.78	0.8	0	5.24	0.03	-0.1	-0.06	0.02	0											
7 Intangible assets	0.03	0.08	0	0.99	-0.04	-0.03	0.01	0.04	0.01	-0.11										
8 Equity ratio	0.38	0.24	0	1	0.01	0.04	-0.02	-0.08	-0.02	0.16	-0.09									
9 Equal ownership	0.15	0.35	0	1	0.03	0.03	-0.04	-0.07	-0.04	0.03	0.03	-0.03								
10 Host country experience	1.54	1.84	1	23	-0.03	0.01	0.08	0.14	0.05	0.03	0.07	0.05	-0.02							
11 Collaboration experience	1.14	0.57	1	8	-0.02	0.05	0.04	0.02	0.03	0	0.04	0.03	0.01	0.5						
12 GDP growth	0.61	2.95	-14.1	10.49	0.05	0.06	-0.03	-0.08	-0.01	-0.07	-0.06	0.03	0.05	-0.05	-0.05					
13 Host country institutional quality	4.49	0.83	3.32	6.18	0.07	-0.12	-0.04	0.03	0.06	0.14	-0.02	0.02	0.09	-0.03	-0.05	0.11				
14 Host country human capital	5	0.44	4.14	6.27	0.06	-0.14	-0.03	0.07	0.04	0.14	0	0.01	0.05	-0.02	-0.04	0.1	0.8			
15 Host country infrastructure	5.26	1.07	2.56	6.65	0.05	-0.21	-0.03	0.1	0.05	0.2	0.04	-0.04	0.03	0.03	-0.01	-0.13	0.78	0.73		
16 Geographical distance	4.49	3.2	0	9.33	0.02	0.15	-0.14	-0.42	0	-0.1	-0.05	-0.01	-0.29	-0.04	-0.05	0.05	-0.05	-0.05	-0.06	

efficiency can positively affect business performance (Kafouros & Aliyev, 2016). We operationalized this measure by the institutional quality measure reported in Global Competitiveness Index (GCI). We controlled for the host country human capital by including the higher education and training measure reported in Global Competitiveness Index (GCI). We also controlled for the host country infrastructure by including the infrastructure measures reported in Global Competitiveness Index (GCI). At the bilateral level, we control for the geographical distance between the host country and the home country of the focal MNE (Boeh & Beamish, 2015). Appendix B summarizes the sources of all variables and their measurements. Table 1 presents the descriptive statistics and correlations.

**4. Results**

We estimate our specification based on a random effects model (Generalized Least Squares (GLS) estimator) in a panel data framework, where we control for host-industry<sup>5</sup> specific and year specific fixed effects.<sup>6</sup> Table 2 present the results of our analyses.

The results for the baseline model show that the effect for home-host cultural distance is positive and marginally non-significant<sup>7</sup>. In contrast, the coefficient for home-partner country cultural distance is negative and marginally non-significant<sup>8</sup>. Results show that the effect for the cultural bridging is positive and statistically significant, providing support for hypothesis 1.

To test hypothesis 2 regarding the interactive effect of cultural bridging and home-host cultural distance, we compute the interaction term between cultural bridging and home-host cultural distance. To deal with multicollinearity, we applied the residual centering procedure (Lance, 1988) to address the correlations between the interaction term (cultural bridging\* home-host cultural distance) and its two constituent parts (cultural bridging and home-host cultural distance). Our results show that the coefficient of home-host cultural distance, i.e., the non-interactive effect, is positive and significant, and the interaction term (i.e., cultural bridging\*home-host cultural distance) is also positive and statistically significant. This shows that the positive effect of home-host cultural distance on IJV performance increases when cultural bridging increases<sup>9</sup>, providing support for hypothesis 2.

When we included an interaction term between cultural bridging and home-partner country cultural distance, our results show that the coefficient for the direct, non-interacted effect of home-partner country cultural distance on IJV performance is negative and non-significant, indicating that the effect of home-partner country cultural distance on IJV performance tend to be negative (or not positive) when there is no cultural bridging. The interaction term (cultural bridging\*home-partner country cultural distance) is positive and significant indicating that the negative effect of home-partner country cultural distance on IJV

<sup>5</sup> We used the following 19 industry categories: (1) Agriculture, forestry and fishing; (2) Mining and quarrying; (3) Manufacturing; (4) Electricity, gas, steam and air conditioning supply; (5) Water supply; sewerage, waste management and remediation activities; (6) Construction; (7) Wholesale and retail trade; repair of motor vehicles and motorcycles; (8) Transportation and storage; (9) Accommodation and food service activities; (10) Information and communication; (11) Financial and insurance activities; (12) Real estate activities; (13) Professional, scientific and technical activities; (14) Administrative and support service activities; (15) Education; (16) Human health and social work activities; (17) Arts, entertainment and recreation; (18) Other service activities

<sup>6</sup> All estimations were estimated with cluster specific (host-industry) robust standard errors to control for heteroscedasticity.

<sup>7</sup> p=0.15

<sup>8</sup> p=0.11

<sup>9</sup> We have plotted the marginal effects of Home-host cultural distance on IJV performance at different values of cultural bridging in Fig. 3.



**Table 2**  
Results of regression analysis - based on Hofstede cultural measures (DV: ROE).

	Baseline model	Cultural bridging interacted with Home-host CD	Cultural bridging interacted with Home-partner country CD
Home-partner country cultural distance	-13.48 (8.458)	-22.10 * * (10.56)	-4.817 (7.188)
Home-host cultural distance	11.95 (8.330)	18.89 * (10.29)	2.519 (6.436)
Cultural bridging	30.68 * (22.15)	47.55 * (24.87)	12.78 (21.12)
Cultural bridging*Home-host CD		26.97 * * (11.93)	
Cultural bridging* Home-partner country CD			23.58 * * (10.74)
IJV size	-13.06 (10.62)	-12.87 (10.44)	-12.52 (10.68)
IJV size squared	0.564 (0.537)	0.570 (0.529)	0.553 (0.539)
IJV age	5.758 (6.751)	5.227 (6.648)	5.405 (6.676)
Intangible assets	-69.06 (45.69)	-68.38 (46.01)	-67.67 (46.15)
Equity ratio	50.32 * * (23.02)	50.80 * * (22.96)	50.65 * * (22.95)
Equal ownership	7.233 (9.705)	6.825 (9.591)	6.553 (9.643)
Host country experience	-0.427 (1.706)	-0.423 (1.696)	-0.421 (1.696)
Collaboration experience	-6.101 (8.406)	-6.109 (8.436)	-6.161 (8.432)
GDP growth	0.941 (1.142)	0.920 (1.135)	0.926 (1.134)
Host country institutional quality	26.19 * * (12.67)	26.28 * * (12.70)	26.39 * * (12.74)
Host country human capital	8.391 (33.35)	7.660 (33.32)	8.041 (33.33)
Host country infrastructure	-2.309 (10.11)	-2.658 (10.07)	-2.547 (10.08)
Geographic distance	0.726 (1.265)	0.798 (1.254)	0.799 (1.254)
Constant	-220.2 (161.6)	-184.8 (158.1)	-194.8 (158.3)
Observations (N)	4307	4307	4307
Firms	1708	1708	1708
R2	0.0433	0.0450	0.0447

Notes: Robust standard errors in parentheses, \*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1. One-tailed tests are used for hypothesized variables; two-tailed tests are used for controls. Industry specific and year specific fixed effects are included but not reported in the table.

performance decreases (and turns positive) with growing cultural bridging,<sup>10</sup> providing support for our hypothesis 3.

We replicated our analysis based on the nine cultural dimensions

<sup>10</sup> We have plotted the marginal effects of Home-partner country cultural distance on IJV performance at different values of cultural bridging in Fig. 4

**Table 3**  
Results of regression analysis - based on Globe cultural measures (DV: ROE).

	Baseline model	Cultural bridging interacted with Home-host CD	Cultural bridging interacted with Home-partner country CD
Home-partner country cultural distance	-10.85 (9.661)	-13.73 (10.14)	-13.86 (10.01)
Home-host cultural distance	7.039 (8.246)	-4.733 (7.659)	-4.006 (7.681)
Cultural bridging	43.16 * * (25.48)	-13.84 (30.20)	-11.97 (31.38)
Cultural bridging*Home-host CD		19.31 * * (11.11)	
Cultural bridging* Home-partner country CD			18.82 * * (10.90)
IJV size	-34.60 * * (13.81)	-33.73 * * (13.66)	-33.78 * * (13.66)
IJV size squared	1.619 * * (0.692)	1.578 * * (0.685)	1.581 * * (0.685)
IJV age	9.328 (6.474)	8.840 (6.438)	8.842 (6.427)
Intangible assets	-115.0 * * * (42.86)	-113.7 * * * (43.02)	-113.8 * * * (42.98)
Equity ratio	44.19 (29.80)	45.44 (29.96)	45.31 (29.97)
Equal ownership	-16.55 * (9.133)	-17.45 * (9.267)	-17.51 * (9.225)
Host country experience	1.042 (1.362)	0.967 (1.366)	0.962 (1.361)
Collaboration experience	6.622 * (3.930)	6.578 * (3.929)	6.554 * (3.918)
GDP growth	-0.228 (2.072)	-0.213 (2.071)	-0.237 (2.074)
Host country institutional quality	41.06 * * * (13.60)	41.05 * * * (13.57)	41.28 * * * (13.61)
Host country human capital	32.82 (45.64)	33.86 (46.00)	34.11 (46.10)
Host country infrastructure	-20.01 (12.58)	-20.64 (12.60)	-20.81 (12.65)
Geographic distance	1.447 (1.347)	1.435 (1.357)	1.453 (1.359)
Constant	-336.9 (225.8)	-295.7 (223.7)	-299.5 (222.2)
Observations (N)	1633	1633	1633
Firms	679	679	679
R2	0.113	0.115	0.115

Notes: Robust standard errors in parentheses, \*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1. One-tailed tests are used for hypothesized variables; two-tailed tests are used for controls. Industry specific and year specific fixed effects are included but not reported in the table.

reported in the GLOBE study (assertiveness, institutional collectivism, in-group collectivism, future orientation, gender egalitarianism, humane orientation, performance orientation, power distance, and uncertainty avoidance).<sup>11</sup> The results are reported in Table 3 and we find

<sup>11</sup> Following prior studies (Mittal & Dorfman, 2012; Waldman, et al., 2006), we used the 'value' indices in the GLOBE study. We also used the 'practices' indices in the GLOBE study and the results were weaker for the moderating hypotheses (please refer to Table S6 in the supplementary file for the estimated results based on the practices indices).

support for all three hypotheses. In terms of control variables,<sup>12</sup> IJV size tend to be negative and IJV size squared is positive and significant. This suggest that there is a U-shaped relationship between IJV size and IJV performance, which is consistent with some studies that have found a similar relationship between firm size and performance (e.g., Lu et al. (2018)). Intangible assets is negative and significant. This could potentially be due to the large expenditure/amortization associated with the intangible assets. Equity ratio is positive and marginally non-significant indicating that firms with better financial strength (lower financial leverage) perform better. As expected, Equal ownership is negative and significant and Collaboration experience is positive and significant. Institutional quality is positive and significant, indicating that IJVs in countries with stronger institutions perform better.

We carried out several tests to confirm the robustness of our results. First, we remove too small Home-host cultural distance (HHCD) as the estimated effect of the Cultural bridging could be potentially biased/exaggerated at very small values of HHCD. The smallest (minimum) value of HHCD in our baseline sample is 0.4. We removed the lowest 10% percentile based on the values of HHCD and re-estimated the results (i.e., values lower than 1.025). The results were qualitatively similar to the results of the baseline model (please see the Table S1 in the supplementary file). To address any endogeneity issues arising from potential selection bias, e.g., because of any omitted variables that could potentially affect both the extent of bridging and IJV performance, we re-estimated our models using the two-stage Heckman correction procedure. First, we estimated the first stage model explaining whether the IJV has 100% bridging (i.e., full extent of bridging or not)<sup>13</sup> and included an Inverse Mills Ratio derived from the first stage in the second stage (i.e., in our baseline models) explaining IJV performance. The results are reported in Table S2 in the supplementary file. The estimated effect of the Inverse Mills Ratio was insignificant, suggesting an absence of such a selection bias, i.e., better performing IJVs self-selecting into IJVs with full bridging. Since we excluded the firms where at least one partner comes from tax havens, we included these observations and checked the robustness of our results. The results were qualitatively similar to those of the baseline model (please see the Table S3 in the supplementary file). In order to ensure that the two partners have an active role in management rather than merely being a passive financial investor, we removed all the firms where at least one partner is a financial investor with a minority equity stake (less than a 50% stake). Therefore, we carried out a robustness test while including these cases (i.e., we include the firms where at least one partner is a financial investor with a minority equity stake (less than a 50% stake). Although the sign of the coefficients of the main effect and interaction effects were qualitatively similar to our baseline results, the significance levels were relatively weaker for this set of results (please see the Table S4 in the supplementary file). This is however not surprising given that financial investors tend to play a passive role in management. Finally, since we used an 85% upper cut-off point to make sure the remaining stake in the firm is less than 20% threshold, i.e., to make sure that there is no other partner(s) that individually or collectively can make any influence over IJV management, we carried out a robustness test by using a 95% upper cut-off point, and the results remain qualitatively similar. Please see Table S5 in the supplementary file.

<sup>12</sup> We interpret the control variables based on the results of Table 3. Control variables perform relatively weaker in Table 2. Some of the significant variables in Table 3 are marginally non-significant in Table 2.

<sup>13</sup> To select the variables for the first stage, we follow Konara & Yang (2022) that have estimated the IJV partner choice as whether the extent of bridging is 100% or not is closely associated with the IJV partner choice.

## 5. Conclusion

### 5.1. Discussion

Our study was motivated by the lack of differentiation between home-partner country cultural distance and home-host cultural distance in IJVs. We suggested that the common empirical, and to some extent theoretical conflation between these two distances has stymied the development of a clearer understanding of the effect that cultural distance has on the performance of IJVs. We argued that this distinction is important because the implications of working in a culturally distant host country (home-host cultural distance) are different from the implications of working with a culturally dissimilar partners (home-partner country cultural distance). By disentangling these two distances, we are able to explore the performance effect of cultural bridging.

In our *first hypothesis*, we argued that cultural bridging positively influences IJV performance, because the level of cultural bridging reflects the degree to which an MNE's IJV partner is able to compensate/eliminate the negative effects associated with cultural distance between the MNE's home country and the host country. These findings are in line with the so far suggested, but empirically unexplored possibility that an IJV allows the MNE to shift the cultural interface from between the MNE and the host country to between the MNE and its IJV partner (Hennart & Zeng, 2002).

In our *second hypothesis*, we suggested that cultural bridging interacts with home-host cultural distance in affecting IJV performance. An increase in cultural bridging strengthens the positive effects and weakens the negative effects of home-host cultural distance on IJV performance. In turn, the importance and performance effect of cultural bridging increases with home-host cultural distance. We therefore expected cultural bridging and home-host cultural distance to interact in shaping IJV performance. Our findings support this argument. Our empirical results for this second hypothesis support the general assumption that having a partner allows MNEs to mitigate the negative effects of cultural distance between the MNE's home country and the host country (Anand & Delios, 1997; Gatignon & Anderson, 1988). Once we account for the interaction between cultural bridging and home-host cultural distance, cultural bridging appears to strengthen positive effects of home-host cultural distance. These findings suggest that home-host cultural distance combined with cultural bridging is in fact conducive to an IJV's performance. This contrasts with existing research that has so far highlighted the predominantly negative effects of cultural distance on IJV performance (Anderson & Gatignon, 1986; Buckley & Casson, 1976; Park & Ungson, 1997; Petersen, et al., 2008; Xu & Shenkar, 2002). Our argument and finding is thus more in line with a comparatively smaller body of research that has begun to stress and show the positive effects of cultural distance (Björkman, et al., 2007; Guenter K. Stahl & Tung, 2015) and highlights the possible arbitrage advantages associated with IJVs in culturally distance countries (Park & Ungson, 1997; Pothukuchi, Damanpour, Choi, Chen, & Park, 2002).

In the *third hypothesis*, we argued that cultural bridging also positively interacts with home-partner country cultural distance in affecting IJV performance. We argued that the performance effect of home-partner country cultural distance would become more positive (or less negative) as the size of the cultural bridging increases. Our results show that the negative effect of home-partner country cultural distance weakens when cultural bridging increases thus supporting our argument. In the same vein, home-partner country cultural distance is therefore less of an issue if it allows for bridging the cultural distance between a MNE's home country and the location of the IJV. In contrast, home-partner country cultural distance that is not needed for cultural bridging between an MNE's home country and a particular host country will affect IJV performance negatively.

Our results about the interactive effect of cultural bridging and home-partner country cultural distance in affecting IJV performance are to a some extent in line with those reported by Hennart and Zeng (2002).

Hennart and Zeng (2002) argue and find that the effect of home-partner country cultural distance on IJV performance is negative based on a comparison of the longevity of Japanese-American JVs versus Japanese-Japanese JVs in the US. They find that the longevity of Japanese-American JVs (high home-partner country cultural distance but 100% cultural bridging) is lower than that of Japanese-Japanese JVs (low home-partner country cultural distance but no cultural bridging). However, Hennart and Zeng (2002) do not account for any variation in home-host cultural distance, which is constant in their study. Additionally, in Hennart and Zeng's (2002) study the variation in home-partner country cultural distance is also limited given that they only compare American JVs with us Japanese-Japanese JVs in the US.

Our study focuses on the role of cultural bridging for IJV performance, and how its effect may vary with different levels of home-host cultural distance and home-partner country cultural distance. This was based on the suggested need to disentangle home-host cultural distance and home-partner country cultural distance as two distinct facets of cultural distance in IJVs that have traditionally been conflated in prior research. In addition to their moderating effects, we thus explore the direct performance of these two different facets of cultural distance.

First, our empirical results show a positive effect of *home-host cultural distance* on IJV performance. This contrasts with existing research that has so far highlighted the predominantly negative effects of cultural distance in general on IJV performance (Anderson & Gatignon, 1986; Buckley & Casson, 1976; Park & Ungson, 1997; Petersen et al., 2008; Xu & Shenkar, 2002). These negative effects were argued to be due to, for instance, knowledge gaps and information asymmetries between the MNE and the local environment and local actors (Anderson & Gatignon, 1986; López-Duarte & Vidal-Suárez, 2010; Petersen, et al., 2008; Xu & Shenkar, 2002) and because of greater difficulties in the transfer and redeployment of resources, capabilities, skills, and practices (Anderson & Gatignon, 1986; Björkman, et al., 2007; Buckley & Casson, 1976; Park & Ungson, 1997). The positive performance effect we found for home-host cultural distance is more in line with a comparatively smaller body of research that has begun to stress and show the positive effects of cultural distance that relate, for instance, particular arbitrage and resource combination advantages (Björkman, et al., 2007; Guenter K. Stahl & Tung, 2015). For example, by studying overseas acquisitions, Björkman et al. (2007) suggest that cultural differences can be an asset, rather than merely a liability, by enhancing the combination potential for MNEs' capabilities. Yet, even if the negative effects of home-host cultural distance outweigh its positive effects, our findings distinguishing between home-host cultural distance and home-partner country cultural distance suggest that these potential negative effects can be reduced by having a IJV partner that allows for cultural bridging.

Second, our empirical results indicate that firm-partner cultural distance has a negative effect on IJV performance. This finding is more in line with prior research on the effect of cultural distance on IJV performance that focusses on the effect the differences between partners on IJV performance. Prior research has stressed high communication, coordination and control costs and lower levels of knowledge spillovers resulting from the differences in strategic orientations, organization structures, management styles, firm values and business practices associated with different cultural backgrounds (Beugelsdijk, et al., 2018; Dhanaraj & Beamish, 2004; Hennart & Zeng, 2002; Hitt, et al., 1997; Kogut & Singh, 1988; Lane, Salk, & Lyles, 2001; Lubatkin, et al., 1998). In contrast, the finding of a negative effect of home-partner country cultural distance is not in line with arguments for the positive performance effect of such differences. Such positive performance effects have been attributed to the fact that greater differences in terms of routines and repertoires possessed by firms of different country-of-origin may provide a basis for capability development and greater differentiation (Morosini, et al., 1998; Slangen, 2006).

By showing that home-host cultural distance and home-partner country cultural distance affect IJV performance in opposite ways, our findings underline the importance of distinguishing between these two

facets of cultural distance when investigating the role of cultural distance in IJVs. In their meta-analyses of factors that determine IJV performance, Reus and Rottig (2009) find that a "weak positive influence of objective measures of cultural distance on IJV performance, but a negative effect of subjective measures of cultural distance on IJV performance". Although we do not have any subjective assessments of cultural distance in our IJVs, based on our study's findings, one could suggest that objective cultural distance reflects home-host cultural distance, which would be in line with our findings. The subjective assessment of cultural distance, in contrast, may to a larger extent be based on managers' assessment of the cultural distance with a particular JV, which would make Reus and Rottig's (2009) findings consistent with our findings for the effect of home-partner country cultural distance. Our study thus provides a possible explanation for the seemingly opposing findings for different ways to measure cultural distance highlighted by Reus and Rottig (2009).

## 5.2. Managerial implications

Our findings also have a number of implications for IJV managers. MNEs establish IJVs with other firms because these firms may have particular knowledge/familiarity with a particular market. This knowledge in turn may be the result of having operated in the host country and/or having operated in (third) countries that are culturally similar to the host country. For example, MNEs expanding into China have been known to establish IJVs with firms from Taiwan. In such cases, home-host cultural distance and home-partner country cultural distance are likely to differ, and IJV partners provide varying levels of cultural bridging.

Our support for the positive performance effects of cultural bridging underlines the importance of accounting for home-partner country cultural distance as well as home-host cultural distance when establishing an IJV. MNEs need to decide how much of the home-host cultural distance they should attempt to "trade off" with home-partner country cultural distance by collaborating with another firm that is more or less distant from the target market. Our findings show that venturing into culturally distant markets with an IJV is most beneficial if the IJV partner allows for high levels of cultural bridging. High levels of home-partner country cultural distance are therefore not per se detrimental, because their potentially negative effects might be more than outweighed by the cultural bridging possible through having a culturally distant IJV partner. Treating home-host cultural distance and home-partner country cultural distance as different dimensions of cultural distance in IJVs allows MNEs to assess the consequences of establishing IJVs with partners from the home, host, or third countries. This may be particularly crucial when there are no potential local IJV partners available for establishing IJVs and MNEs need to consider firms in the home- or in third countries as potential IJV partners.

Overall, our findings have implications for IJV management by underlining a partner firm's contribution to cultural bridging as an important criterion when selecting an IJV partner. Because the maximum cultural bridging is possible through a local partner or a partner from a third-country that has a similar culture to the host country, our findings may imply that MNEs could benefit by partnering with a host country firm or a partner from a third-country that has a similar culture to the host country. In the case of partnering with a home-country firm or a partner from a third-country that has a similar culture to the home country, MNE will likely to face less home-partner country cultural distance but will not be able to benefit from the positive effect of the cultural bridging. Even though an increase in the cultural bridging is likely to lead to increase costs for monitoring and coordinating as the cultural interface shifts to the firm-partner level, our findings indicate that the benefits associated with greater cultural bridging will outweigh the costs associated with a larger home-partner country cultural distance. By establishing an IJV with a partner from a third country, MNEs could benefit from cultural bridging without

unnecessarily increasing home-partner country cultural distance.

### 5.3. Limitations and future research directions

Our study is limited in various ways that open up interesting alleys for future research. Although our study covers a large set of host and home countries, particularly compared to previous IJV studies that usually focus on a single host country or a single home country, our sample was limited to IJVs in Europe. Therefore, caution is needed in generalizing our results to IJVs located outside Europe. Future research should investigate the effects of cultural bridging using IJVs in other geographical regions.

Our cultural distance measure is based on Hofstede's (1980) dimensions, which has been subject to recent criticism. For example, Hofstede's (1980) dimensions assumes uniformity within the national unit and does not take into account within country spatial (e.g., regional) and corporate heterogeneity (Shenkar, 2001; Tung & Verbeke, 2010). However, data is not available for a sufficiently large number of countries to address such granularities (Hutzschenreuter & Voll, 2008). We also do not address the potential asymmetric effects of cultural distance (Shenkar, 2001; Tung & Verbeke, 2010) as no reliable data/methods exist to address such asymmetric effects of cultural distance (Hutzschenreuter & Voll, 2008). Scholars have also questioned the linearity assumption, i.e., assuming a linear relationship between cultural distance and the dependent variable. We have carried out a robustness test to test for potential nonlinear effect of our bridging effect, but we do not find any non-linear effect. One important way to address this issue is by our use of the index suggested by Konara and Mohr, (2019), which addresses one of the main mathematical flaws of Kogut and Singh cultural distance index, which makes it a squared

distance. By theorising a linear effect and then employing a linear measure (rather than a squared measure), we address this concern by improving the internal validity of our study. Scholars have also questioned the assumption of the stability of cultural distance measures over time (Shenkar, 2001; Tung & Verbeke, 2010), however, time varying data is not available to capture such dynamic effects of cultural distance. We recommend that qualitative research designs may be particularly useful to study the evolution of both home-host cultural distance and home-partner country cultural distance in IJVs. We hope to stimulate further research on the concept of cultural bridging, in particular in the context of how MNEs can use this cultural bridging via third country firms. Potentially, MNEs might be able to achieve cultural bridging by having operations in a country closer to the host country. We suggest that there is a significant room to extend this research by incorporating the potential cultural bridging via a third country or a partner outside the host country. Our central focus is on culture, however, MNEs can use IJVs (or other types of alliances) to bridge other differences/distance, for example, institutional, geographic, economic and linguistic differences. For example, future research could explore MNEs' entry into new product markets through JVs, where a partner's knowledge of that new (product) market can be beneficial, while creating a distance between the MNE and the partner due to differences in their respective product-market knowledge. Finally, our study is limited to analysing one aspect of IJV performance, i.e., profitability. Future studies should examine the effects of cultural bridging on other IJV outcomes, e.g., IJV termination/survival.

### Data availability

The authors do not have permission to share data.

## Appendix A. List of countries included in the study

Host Countries (24)	Home Countries (59)	
Austria	Argentina	Latvia
Belgium	Australia	Lebanon
Croatia	Austria	Lithuania
Czech Republic	Belgium	Luxembourg
Denmark	Brazil	Mexico
Estonia	Canada	Morocco
Finland	Chile	Netherlands
France	China	New Zealand
Germany	Colombia	Nigeria
Hungary	Croatia	Norway
Ireland	Czech Republic	Poland
Italy	Denmark	Portugal
Latvia	Egypt	Romania
Luxembourg	El Salvador	Russian Federation
Malta	Estonia	Saudi Arabia
Netherlands	Finland	Slovakia
Poland	France	Slovenia
Portugal	Germany	South Africa
Romania	Greece	Spain
Slovakia	Hungary	Sri Lanka
Slovenia	Iceland	Sweden
Spain	India	Syrian Arab Republic
Sweden	Iran, Islamic republic of	Thailand
United Kingdom	Iraq	Turkey
	Ireland	United Arab Emirates
	Israel	United Kingdom
	Italy	United states
	Japan	Uruguay
	Jordan	Venezuela
	Korea, Republic of	

## Appendix B. Variable description, measurement, and sources

Variable	Description/Measurement	Data Source
ROE	Return on Equity	Bureau van Dijk's Amadeus database
Home-host cultural distance	Cultural distance between MNE's home country and the host country	Constructed based on four cultural dimensions taken from the Hofstede Centre ( <a href="http://geert-hofstede.com/countries.html">http://geert-hofstede.com/countries.html</a> ).
Home-partner country cultural distance	Cultural distance between MNE's home country and the partner firm's home country	
Cultural bridging	The proportion of home-host cultural distance (i.e., cultural distance between the firm's home country and the host country) that is reduced by having a JV partner from a culture closer to the host country culture	
Size	Firm's total assets (in millions)	Bureau van Dijk's Amadeus database
Age	Log (1 + firm age)	
Equal ownership	This variable takes the value of one if the difference between the two partners' stakes is less than 1% and zero if one partner has at least 1% more ownership than the other.	
Intangible assets	Ratio of intangible assets to total assets	
Equity ratio	Total shareholder equity as a percentage of total assets	
Host country experience	The number of subsidiaries (including the IJVs) in the host country	
Collaboration experience	The total number of IJVs of the focal firm	
GDP growth	GDP growth rate of the host country	World Development Indicators
Host country infrastructure	Composite variable that captures host country infrastructure	Global Competitiveness Index (GCI)
Host country Human capital	Composite variable that captures host country higher education and training	
Host country Institutional quality	Composite variable that captures host country institutional quality	
Geographical distance	Geographical distance between the home country of the MNE and the host country	Rose and Spiegel (2011)

## Appendix C. Supporting information

Supplementary data associated with this article can be found in the online version at [doi:10.1016/j.ibusrev.2023.102109](https://doi.org/10.1016/j.ibusrev.2023.102109).

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