Motives for International Joint Venture Formation in Retailing: A Knowledge-Based View

Abstract:

International joint ventures (IJVs) are currently one of the most widely used foreign market entry strategies by TNC. They are not only employed by manufacturing TNC, but also in the service industries that are rapidly gaining importance in the economies of both developed and developing countries. At the same time, present International Business literature rarely examines the use of IJVs in the service industries. In this paper, we aim to address this gap by investigating the motivations of retailing firms for engaging in IJVs. We present a qualitative study of four large internationalising UK retailers. We ground the studies in the knowledge-based view (KBV) of the firm. KBV is generally sidelined in the IJV literature in favour of transaction cost economics and resource-based view. We argue that it is particularly relevant for understanding IJV activity within the retailing industry due to deep embeddedness of retailing firms in local markets which necessitates acquisition and creation of tacit market knowledge.

KEYWORDS: International joint ventures, retailing, knowledge-based view

Introduction

It can be asserted that the strength of Western economies no longer lies in manufacturing, but in the service industries (Keeble et al., 1991; Vargo, 2004). Indeed, nowhere has this shift had more influence than in the distribution and retailing sector, often paraded under this ‘service industries’ banner; the restructuring of which has created some of the largest industrial TNCs in the world today and resulted in the transformation of both vertical and horizontal markets. Dunning (2000) pointed out that inter-firm collaborative arrangements, such as international joint ventures (IJVs), represent one the major developments in the global economy of recent years. They are now central competitive strategies of virtually all corporations. The emergence of retail TNCs and the integral role played by joint ventures in their expansion has brought home the need for understanding the processes associated with them.

Accordingly, over the past several decades, motives for IJVs have received significant empirical and theoretical attention (Kogut, 1988; Glaister and Buckley, 1996; Glaister, 2004), with a number of theoretical perspectives explaining this phenomenon such as organisational learning theory (Porter and Fuller, 1986), transaction cost economics (Hennart, 1991), real options theory (Kogut, 1991) and resource based theory (Eisenhardt, 1989). However, this stream of the IJV literature is limited on two important fronts. First, it largely ignores IJV activity within the retail and distributive sectors, predominately focusing upon production-driven FDI. As a result, we know little about the intent and behaviour of retail TNCs such as Wal-Mart, Carrefour and Tesco when forming IJVs in foreign retail markets. If we accept that retail and manufacturing firms function under unique operational contexts, albeit with several commonalities (Dawson, 1994; Wrigley et al, 2005), then we must accept that strategic intent driving their key FDI decisions will differ (see Dawson, 1994, for a review of significant differences between manufacturing and retail firms).

Second, prior theoretical and empirical understanding of IJVs motives revolves around a narrow set of economics-based theories, most notably, transaction cost economics (Hennart, 1991; Glaister, 2004) and the resource based view (Das and Teng, 2000). A bias exists towards economics-based explanations of IJV behaviour, as opposed to recent and relevant alternative explanations, such as the knowledge based view (Grant and Fuller, 2004). Although researchers have paid attention to knowledge issues in IJV formation (Hamel, 1991), much less has been done to apply KBV to understanding IJV motives. To further justify the application of KBV to IJV formation in the retail sector, the following reasons can be offered:

The spatial complexities and interactions within (and across) retailing markets elevate the value of knowledge to the retail firm, and establish significant a role for externalising knowledge acquisition. As these retail activities are embedded within, and intertwined across multiple spatial scales (Palmer and Quinn, 2007), retail TNCs are increasingly co-operating with other companies to engage in knowledge-based activities and access capabilities outside their own boundaries. Further, by virtue of their territorial embeddedness, retail TNCs must adapt to the dynamism of the marketplace, which often demands tacit knowledge of the social, political and institutional host market context for achieving sustainable competitive advantage (Prahalad and Hamel, 1994). Tacit knowledge is often accessed through inter-personal interactions and communities of practice that can, however, be impeded by different and complex social-cultural conditions. IJVs are viewed as effective conduits for overcoming these barriers and accessing tacit knowledge (Kogut, 1988). Finally, knowledge creation is central to managing the complexity of retail internationalisation (Vida and Fairhurst, 1998; Jonsson and Elg, 2006). However, examination of learning in retail internationalisation has traditionally concentrated mainly on intra-organisational learning processes, such as the transfer of retail know-how (Kacker, 1988; Goldman, 2001) and the strategic lessons learned from international experience (Muskett, 2000; Palmer, 2005; Bianchi and Ostale, 2006). Little attention has been devoted to how inter-organisational constellations, such as international retail joint ventures, function as unique learning entities (Robinson et al, 1998).

The aim of this paper is to understand what knowledge-based motives exist in the retail joint venture decision-making process. We consider this question from the standpoint of the retail parent company and examine the motivations of four UK retail TNCs through a qualitative case study approach. After a brief review of literature on IJV motivations and the knowledge-based view of IJV motives, and a description of research methods, we frame our analysis and discussion around two topics:

i. *The knowledge retail TNCs hope to gain/create by entering an international joint venture.*
ii. *Their expectations of knowledge-acquisition/creation processes upon deciding on an international joint venture.*

International Joint Venture Motivations

The study of IJV motivations constitutes an important area of IJV formation research over the last several decades (Kogut, 1988; Hennart, 1991; Glaister and Buckley, 1996). Although a variety of strategic objectives have been proposed to explain the existence of IJVs, mostly have largely revolved around risk reduction and resource access (Contractor and Lorange, 1988; Kogut, 1988; Glaister and Buckley, 1996). IJVs can hedge against risk by spreading capital outlay, reducing risks associated with market entry, and achieving faster return on investment (Marti and Smiley, 1983). Risk reduction through IJV entry has been further associated with the cultural distance thesis (Kogut and Singh, 1988), asserting that firms aim to mitigate against cultural distance through partner knowledge and support. Thus, it is likely that firms developing foreign operations require access to critical resources embedded in the foreign market via local partners (Blodgett, 1991; Glaister, 2004). Indeed, Glaister and Buckley (1996) found that access to complementary resources constituted the primary reasons for IJV formation. In further support, Wrigley (2000) identified how western retail TNCs entered emerging market in South East Asia and Latin America, with IJVs reducing macro risk and gaining access to property and labour markets. As well acquiring resources, disposing of resources may further explain IJV formation (Kogut, 1991; Teng, 2007). Nanda and Williamson (1995) suggested that firms may channel unwanted assets into a joint venture before suggesting a sale to the partner, thereby achieving a better return on the assets.

Further, institutional pressures can motivate firms to pursue activities that enhance legitimacy, causing them to appear in agreement with prevailing rules, requirements and norms (Meyer and Ronan, 1977; Oliver, 1990). IJVs may emerge as a behaviour conforming to prevailing organisational routines of IJV expansion, historical forces such as corporate culture or inertia (Davies et al., 2000). For example, Burt (1991) found that French food retailers were inclined towards IJV expansion because of previous experience of joint ventures within domestic regional operations.

Over the last two decades, many researchers have identified how inter-firm alliances, such as IJVs, create opportunities for knowledge acquisition and exploitation (Hamel, 1991; Dyer and Singh, 1998; Larsson et al, 1998). Indeed, in retail internationalisation, several authors have identified JVs as ways for retailers to acquire market-specific knowledge, such as knowledge on customer shopping habits and trading conditions (Hollander, 1970). However, while the IJV can foster knowledge transfer, it can generate new knowledge that neither of the partners possesses separately (Mowery et al, 1996; Grant and Fuller, 2004). Hamel (1991) argued that JVs have a dual role to create and appropriate value, with the latter role leading to the 'learning race' thesis. In this, value is appropriated when the venture is primarily used to absorb the skills of the partner. Although a stream of empirical work over the last several decades has identified the learning motive in IJV formation, especially the acquisition of tacit knowledge (Kogut, 1988; Hamel, 1991), it is only in recent times that the KBV of the firm has been projected towards the causes and managements of alliances (Grant, 1997; Grant and Fuller, 2004).

Knowledge-Based View of IJV Motives

This perspective views knowledge as the most strategically significant resource of the firm. Stemming from the strategic management literature, it builds upon and extends the resource-based view of the firm (RBV) initially promoted by Penrose (1959) and later expanded by others (e.g. Wernerfelt 1984, Barney 1991). While, RBV recognizes the important role of knowledge in firms that achieve a competitive advantage, proponents of the knowledge-based view (KBV) argue that RBV does not go far enough. It is asserted that because knowledge-based resources are usually difficult to imitate and socially complex, heterogeneous knowledge bases and capabilities among firms are the major determinants of sustained competitive advantage. To this end, Dawson (2003) has asserted that retail TNCs require to harvest and exploit their knowledge to achieve competitive advantage. This knowledge is embedded and channelled through multiple entities including organizational culture and identity, policies, routines, documents, systems, and employees.

The advantage of the KBV to IJV formation is that, in part, it provides deeper insight into the issues of the costs of knowledge transaction (Grant and Fuller, 2004). As compared to market contracts, IJVs can avoid many of the costs associated with market-based know-how and limit partner opportunism through fostering repeated investments in trust (Teece, 1992). Market based transfers can be relatively inefficient when the knowledge is complex and difficult to codify (Inkpen, 2000; Kogut, 1988; Shenkar and Li, 1999). In accordance, Mowery et al (1996) empirically found how equity joint ventures appeared to be more effective conduits for the transfer of complex capabilities than contract based alliances.

An additional advantage of IJVs under the KBV relates to the conditions of uncertainty and first mover advantage. It is reasoned that if a firm is uncertain as to the future of know-how requirements of its current products, along with the pressures of time, IJVs can allow know-how investments to be spread across a number of project areas (Grant and Fuller, 2004). In terms of first mover advantage, IJVs can allow the firm to rapidly identify, access and integrate across new knowledge combinations. However despite these potential benefits, the transfer of knowledge through equity based joint ventures is not always an assured outcome, with possessing absorptive capacity being a necessary condition for a firm exploiting knowledge outside its boundaries (Cohen and Levinthal, 1990; Mowery et al, 1996).

Methodology

This empirical study applied the multiple case study method, which is usually used to study complex phenomena in a real life context and allows an investigation to retain the holistic and meaningful characteristics of real life events, such as the processes of IJV management and development (Yin, 1994). The main form of data collection in this study was through semistructured interviews with senior retail managers who were directly involved in the establishment and operation of the IJV. The interview data were supplemented with multiple sources of evidence, including corporate documentation and archival press material.

Case Selection

Purposeful sampling, aimed at the selection of "information rich cases", worthy of in-depth study was used to select the cases (Patton, 1990). Criterion sampling was also used to select information rich cases. The key criterion was that the retailer must have formed an equity international joint venture. A joint venture is considered international when it is formed by parent partners originating from different countries or when a joint venture has significant levels of operations in more than one country (Geringer and Herbet, 1989). The retailers studied were drawn from a population of retail companies in the UK operating in international markets. The key source in identifying UK International retail activity was the UK Cross Border Activities Report (1996) and the Retail Intelligence Report (2001). A total of thirty companies were contacted to participate in research involving a range of IJV issues. Of these, eight companies agreed to participate. For the purposes of this study, four cases are included in the final sample. A confidentiality agreement was signed with the companies before the interviewing, which eased the interviewees' concerns over disclosure. For these reasons of confidentiality none of the companies will be identified by name in the paper. Table I provides further details of the companies participating in this study.

"INSERT TABLE I HERE"

Data Collection and Analysis

During the period of May 2003 to June 2004 twenty interviews (as displayed in Table II) were undertaken across four companies with directors and managers involved in the establishment and implementation of the IJV. The interviews averaged the duration of around one hour and ten minutes. All the informants were comfortable with being taped and interviews were transcribed within five days of each visit. While a set of questions was used as a guide for the interviews, the interviews themselves were not driven by any *a priori* conceptualisations or theoretical underpinnings. Rather, they allowed the retail executives substantial freedom to express their views on the joint venture activity and the reasons for their formation. Each case was studied thoroughly in its own right, and cross case analysis was conducted by displaying cases with the aim of identifying common explanations and patterns of the studied cases, with similarities and differences noted.

"INSERT IN TABLE II HERE"

Findings

The analysis of the data revealed two broad areas regarding the knowledge-based motivation of retail firms entering into IJVs: The different types of knowledge the internationalising retailers hoped to gain from their partners, and their expectations of the knowledge acquisition process. These two sections below describe them.

Nature of knowledge motivation by knowledge type

As indicated in Table IV, the findings identified that the retail firms were motivated to enter into IJVs by the access to various types of knowledge. These were: market-specific, partner-specific knowledge and firm-specific knowledge.

Market-specific knowledge

Retailers aspired to acquire partner knowledge specific to the local market. This can be further categorised into knowledge of local financing, knowledge of local real estate buying, knowledge of local human resource systems, knowledge of local merchandising and marketing, and knowledge of local government and business networks.

To acquire knowledge for achieving local financing

With *Retail Store One*, *Retail Store Two* and *Retail Store Four*, attaining international investment strongly influenced the joint venture decision. In *Retail Store* One, the Taiwanese joint venture represented the first international expansion of the company. Despite reviewing internationalisation since 1993, there was considerable uncertainty over available capital expenditure and the acceptance of the retail proposition beyond the domestic market. Moreover, as corporate funds available for growth were largely constrained by organisational restructuring in a highly competitive UK retail sector, there was the need to achieve local financing. Unlike *Retail Store One*, *Retail Store Two* had previous internationalisation experience, albeit through an ad-hoc, reactive export and franchise model. This model proved largely unsuccessful, failing to deliver the scale and control required for a committed and profitable international business. Thus, although *Retail Store Two* was relatively inexperienced in delivering the structured international business model, management responsible for foreign activity were under considerable available capital constraints for international expansion that culminated in a high degree of financial risk for the company:

> “We thought between us [management] throughout the early days of thinking about this strategy [joint venture] was that we are not a large international company. We need good partners to internationalise ourselves. Our ability to internationalise quickly [i.e. speed to market] is constrained by our ability to invest, so we wanted partners who had knowledge of the local equity markets. So that’s why a joint venture. We could have gone and employed local management etc

> but with a joint venture partner we truly get the best commitment that will give us the knowledge of this important issue (Director/Retail Store Two)

Retail Store Four constituted the only case to acknowledge exploiting partner investment finance as the key reason for IJV formation. The company's formations in the US and Europe were predominately driven by investment requirements. The company's largest joint venture with a US Partner was formed initially to fund current development costs in Los Angeles, as well as to launch an aggressive expansion across the US market. Effectively, the venture aimed to enable the company to penetrate the U.S market without injecting major investment. As a privately owned retailer, external capital expenditure was restricted to limited external sources; the intensive diversification activity of the parent company further heightened the need for external funding. The dominance of the investment barrier driving joint venture choice throughout their joint venture history is illustrated by the following quote:

> "I think the single most important issue at the meetings when the joint venture was being initially discussed in the company; I remember it well, it was at a management meeting and the overall thinking was that the key objective for us at that time was to raise money. It wasn't a question of winning local expertise, or it wasn't a question of teaming up with another retailer for strategic reasons. And it wasn't about both parties bringing complementary things to the party. We believed it to be a very financially orientated process." (Ex CEO/Retail Store Four)

<u>*To provide access to knowledge on local real estate buying*</u>

All four cases acknowledged real estate/site acquisition issues as significant barriers to retail entry. Considering that retailing is intrinsically connected to local planning regulations, different administrative, legislative and fiscal regimes along with differing property market conventions and codes of evaluation practice render additional complexity for international retail decision-making. Hence, to overcome these barriers, international retailers, through the joint venture seek to locate, select and acquire sites quickly in attractive locations at competitive prices. Consequently, partners have an ability to provide knowledge and procedure on real estate laws, regulations; analysis of demographics, logistical concerns and the costs and benefits of the decision to rent and buy. For instance, *Retail Store Two* reported that through existing partner property competencies, store and site investment decisions can be effectively based on much more thorough and locally based information sets, thereby reducing risk:

> "When thinking about this at the outset we realised that buying property in this particular foreign market would be an important barrier to overcome; the specific issue is transparency when buying property in markets such as those in Asia. The information barrier is severe for foreign retail firms coming into the market new that you really need the interpretation skills and local contacts to overcome it." (Director/Retail Store Two)

Retail Store Four's entry into the Japan music retail sector was strongly motivated by the need to access the almost priceless retail space in Tokyo. For the first store in the joint venture, the partner proposed to offer the joint venture one of the largest basement stores in Tokyo. In 1991, it would have cost about £70m to acquire 10,000 sq ft of retail space. At that time, the store in the Shinjuku area of Tokyo was the largest single floor area of music and entertainment products anywhere in Japan. *Retail Store Four* noted that their competitors had recurred substantial losses in Tokyo, partly because they had to pay such high 'key money' deposits on their shops, along with fact they had not established any customer loyalty. Therefore, instead of requiring finance to purchase the most expensive land in the world, the company realised that its capital outlay would only be confined to fitting out and managing the stores.

To access knowledge on human resource processes and procedures

Retail Store One, *Retail Store Two* and *Retail Store Three* all reported perceived barriers to gaining access to qualified trained management, store staff and the general manoeuvring within the local market. The starting point is that partner knowledge of the local market could enable retailers to localise the stores, local managers to communicate effectively with staff and assist corporate HQ to penetrate business networks. Interestingly, management perceived that the ability to navigate within the labour market and establish productive recruitment processes was constrained by a liability of foreignness. That is for *Retail Store One*, the lack of corporate visibility and reputation in the host market would impede their ability to attract a supply of skilled labour and management:

> "When we first considered the proposal from our partner, what was running through peoples' minds [management], was that as they [partner] are a existing supplier they have a lot of very skilled buying staff who are able to transfer to us … giving a lot of commercial acumen to a business." (Director/Retail Store One)

Similarly, *Retail Store Two* perceived that the lack of knowledge on local labour practices would impede their ability to develop a localised management infrastructure. Across its joint venture portfolio within specific markets of South East Asia, *Retail Store Three* acknowledged corporate dependency on local management capability. This dependency derives from the company's strategy of localisation whereby the retail proposition is adapted to local market conditions. For instance, with the South Korean IJV, *Retail Store Three* identified an excellent cross functional partner management team to supplement their existing international management infrastructure. Moreover, in the backdrop of national hostility to foreign retail companies in South Korea, management identified potential difficulty when recruiting and maintaining local employees. Hence, local representation through local management was perceived as a way to disarm potential anti-foreign sentiment:

> "From the initial discussions of this joint venture was that to get into Korea which is a very hostile and chauvinist market we would really need a good partner. By ourselves we wouldn't be able to attract good calibre Korean management. We identified that the partner could bring constructions skills in Korea, technology skills for the joint ventures business Korea, they would provide a number of management, the Chief Executive and five of his executive board are Korean and came from the partner. Again there are a number of processes around personnel, recruitment and training which have been very valuable and they have helped to acquire sites, they have a land-bank, that they have skills in findings sites so they have brought those." (Director/Retail Store Three)

Retail Store Three would replicate such moves in the China IJV. The requirement for a high ratio of local employees in the overall management/employee composition is driven by the company's strategy of localisation. As this competitive strategy proved extremely successful in South East Asia, this motive of accessing local human resources, specifically strong local retail management, became further apparent in the recent Chinese venture, signed off during May 2004.

To access knowledge related to merchandising and marketing support

Retail Store One, *Retail Store Two* and *Retail Store Three* recognised they faced barriers to marketing and branding the retail concept to the host market. These companies were transferring the retail proposition to culturally distant markets, where customer preferences differed considerably from the home market. When planning for Taiwanese entry, *Retail Store One* and *Retail Store Two* perceived that product range and merchandising would necessitate a high level of local knowledge content, requiring considerable adaptation from the UK offering. However, although Case One believed that they could successfully adapt product ranges eventually, management believed that it was time consuming for subsidiary managers on their own:

> "I remember the first discussions on this with several people here (head office) and it really revolved much around the fact that the majority of all our products, brands are not very well known, they are not international brands, they are completely different from the electrical retail sector where brands are very important, Sony, Phillips etc. There are very few brands like that the in the DIY sector which means that most of the products are local and it just takes a hell a lot of time to build 10,000, 20,000, 30,000 product items without that kind of local knoweldge support. As that's our partner's business we knew we could get there very quickly." (Director/Retail Store One)

With *Retail Store Three*, management asserted that there was always the danger of applying an ethnocentric approach to marketing. Again with *Retail Store Two*, management acknowledged the danger of applying a British perspective to store design, merchandising, product ranging and advertising, as experienced by the company's early internationalisation efforts in Ireland, where amongst other problems, the UK viewpoint heavily influenced strategy. Thus, *Retail Store Three's* strategy for localisation offered customers local taste and culture:

> "Retailing can actually be the most difficult business to operate, particularly to a foreign group because we need to have a good understanding of local customer needs. Having a local business with local management who have the knowledge of the market, customers and government and all the local skill sets as a well as the reliance on expatriates are essential to ensure the local feel and flavour." (Director/Retail Store Three)

<u>*To access knowledge on government and business networks*</u>

Retail Store One, *Retail Store Two* and *Retail Store Three* reported the access to the partner's social/political capital as a motive. Retail Store One recognised that their entry into China would critically necessitate a partner who was connected politically across several layers of government:

> "At that time of deliberating over joint venture entry, there was a sense among us which I think was especially influenced by our Taiwanese experience was that there was a need for us in this market [China] to have a relationship with government at all levels and knowing how to work those relationships. All that can be learned but it will take you x amount of time and x amount of cost to learn. If you can go in with a partner who can steer in those areas, and you can sit down say I want to do this and then they will say you can't really do that but what you could do is this which gives you near what you want. So that's very helpful in a new market…it is not just about the partner getting you in the door. It is about them providing you with credibility." (Director/ Retail Store One)

In China, decisions relating to investment structures, retail sector development, property buying, labour and the regulatory environment are significantly tied to political decisions. Management recognised that they need in some way to 'grease' various actors across the political environment to reach operational status. Across *Retail Store Three's* ventures in Asia, the motive to access political capital from strongly locally embedded partners was highly visible: "Local influence, politicians, government agencies and the influence makers, the movers and shakers…the joint venture gives us access to them" (Director/ *Retail Store Three*). The Chinese IRJV was partly motivated on the basis of accessing political connections from a local well established partner. Although of Taiwanese origin, the partner injected $1.2bn of investment into mainland China through a diversified portfolio of companies since the late 1980s. Thus, that local knowledge of the business and political institutional environment enables the partner to overcome local protectionism, known to restrain domestic retail chains, in addition to foreign retailers. Thus, forming the Chinese IRJV would enable the company to exploit the partner's relationships with local and provincial governments. *Retail Store Two* local knowledge criterion pertained specifically to the local institutional environment, as highlighted by the Finance Director: "We were really at the time I think, looking for a partner in Turkey who knew their way around the property market and could assist us in getting stock through customs and so the partner we eventually chose ticked those boxes".

Partner-specific knowledge

Interestingly, all four cases claimed they accrued learning on how to manage joint ventures and inter-firm relationships. In particular, *Retail Store Four* acknowledged intensive intentional learning relating to partner behaviour and personality that develops trust within the relationship:

> "There is learning that goes in these joint ventures. I think even with regards what makes the partner click, how your behaviour actually affects the outcome of a decision. I think even with regards our partner, where there are many different personalities in terms of both side of the table, just as there was in, just as there are in the Italian partner. I mean there is a lot of learning that goes on in terms of learning and trusting each other and knowing what makes the other person tick and learning about their background and what they have done and how they have done it and what they know. I mean it is extraordinary how much communication goes on and needs to go in these joint ventures in order to make them successful as they actually are" (CEO/Retail Store Four)

Retail Store Two emphasised how improved levels of knowledge of the partner's internal operating environment and enhanced inter-partner management relationships improved the company's ability to accruing market specific knowledge:

> "Our culture is very different yet we have like minded values and these are all mirrors. Culturally they run their business in a different way. They are much more paternalistic than we are and they would be more hierarchical than we are and that's the Asian culture. But in terms of a value system, their values for operating in a business are similar to us although culturally we are very different. Then you got to determine if the cultures can come together. We know we have learned some basic behaviours that you need to adopt from day one but as you get to know the partner some of those barriers break down and you can get into some different questions that help you understand the partner, the culture and the market much more" (Director/Retail Store Two)

Retail Store One identified learning related to structural dimensions to the management of joint ventures. Management emphasised the legality and taxation aspects of the contract, while also emphasising the 'exit' aspect of the contract, the inclusion of an 'option', as a key learning dimension. However, *Retail Store Three* emphasised more broadly the corporate capacity, a 'relational capability' to work effectively with domestic and foreign partners:

> "We have matured our thinking on this subject. We have evolved out of true and certain knowledge that it is the fastest way to be local and the fastest way to win. I am not saying you can't win without it…The financial services joint venture in the UK, changes on the board and the whole of this joint venture experience in Asia has developed a capability internally to work with partners and I think that's becoming a defining strength within the company that we built relationships, winning relationships with people and I can't tell you of a partnership that we have fallen out but I can tell ones that have ended. However, in the early joint venture, we lacked the

experience to fully appreciate the importance of relationships to running these structures. (Director/Retail Store Three)

Firm specific knowledge

In contrast to other types of knowledge, only one case firm was motivated to enter into the IJV by access to firm-specific knowledge from the partner. *Retail Store Three* claimed that their skills in their non-food proposition would be significantly assisted by the Thai partner's expertise leading the company to transfer such knowledge across the organisation.

Aspired knowledge acquisition processes

When undertaking the analysis for this study, it was identified that management within each case had some pre-understanding of how they would learn within the IJV; and their specific role within that intended learning process. By and large, the dominant intended learning mode was experiential learning:

Retail Store Three recognised a significant contribution of market specific knowledge into joint venture operations. This was largely explained by their strategy of localisation that emphasised strong local knowledge requirements. Through initial planning processes, management aspired to graft partner market knowledge through close working relationships at board and operational level.

In contrast, *Retail Store Four* intended to learn through more in-store partner interaction and experiential based learning that filtered into the retail operations. This knowledge predominately pertained to in-store merchandising. This was considered value-added in the early days of operations, allowing the retailer to reduce errors previously made by competitors. In contrast to Retail Store Two intended for a more amore indirect, albeit still perceived valuable knowledge contribution. The company used the metaphor of the first store acting as a 'laboratory', involving experiential store learning which entails adapting, refining and adjusting aspects of the proposition to fit local market conditions:

> "The learning comes from the consumer. In every market it is the consumer who really is teaching us what we are doing. In every market we do our customer research but we don't spend a lot on as it comes back to the cost of the operating model. But the way is to get a store opened up quickly at the lowest possible cost and then learn. So it becomes a laboratory and that's what we do in every market we have gone into" (Director/Retail Store Four).

The intention was for the partner to assist with this experiential learning through the transfer of high calibre local staff to store operations. This aims to achieve valuable knowledge depositories of local knowledge and acted as interpretation mechanisms for evaluating consumer responses. In this learning-by doing approach the company conducted and repeated operated routines that invoked consumer responses allowing management to adapt and adjust accordingly. Similar to *Retail Store Four*, *Retail Store One* intended to adopt an experiential approach to knowledge acquisition with the expectation of direct partner contributions:

> "Our model when we go into a new country is to plot, test and invest. So you pilot, open four stores and so the role of the pilot is to discover if the customer will accept our products. You then correct all the mistakes from the all the four stores and learn from them. Now they would tell us because they know us better now. So as we know each other better, we learn better. You lean about the Chinese New Year, you learn about ghost month, all these things are learning. You know about then you heard about them but you don't really know the impact of them, but the partner does".

Through partner knowledge and in-store trial and error learning, the company made refinements to operations in Taiwan. As the above quote illustrates, the retailer recognised the plan to learn 'under the skin' knowledge of the consumer and the market through an ongoing learning by doing approach.

Discussion

At the outset of this study we sought to examine the motivations for international retailers adopting joint ventures in foreign markets through an examination of four British retail TNCs. The evidence clearly established that connecting with a local firm aimed to provide richer knowledge of customers, local markets, local culture and local government policies and regulations. Therefore, this study supports Glaister and Buckley (1997) that a primary criterion for developed market firms is market knowledge and access. Additionally, uncertainty surrounding the viability of the retail proposition and knowledge deficiency of labour, property and political spheres can be alleviated by operating with a foreign partner who can provide market knowledge on property contacts, processes and procedures, recruitment laws and government policies and legality pertaining to store construction (planning legislation), strategy and operations (competition policy, format controls), import restrictions and taxation. Hence, it is discerned that retailers critically require the partner to assist their path of progression within new host market retail environments. Interestingly, the evidence revealed that retailers aim for their partners to critically provide knowledge of useful "thick relationships' and networks that span their organisational and industry boundaries.

As retailing is geographically tied (Sternquist, 1998), the location of FDI in retailing firms compared to manufacturing firms, as for many other service organisations is determined by the necessity of closeness to customers and the capacity for adaption to local customer requirements. Thus, as pressure is placed on the retailer to locate activities in close proximity to the consumer, it is not surprising that the research raised the spatially bounded joint venture knowledge motives of accessing partner expertise towards acquiring local store sites, retail stores and accessing local partner management and labour for store operations. However, underlying these specific motives is the inferred temporal motive of operational expediency. Retail decision-makers raised the underlying expectation that accessing critical strongly localised resources and skill sets within partners would achieve faster operational status, thus reducing time associated with initial and demanding entry requirements, such as complying with multiple forms of legal intervention, recruiting and training store managers, locating and acquiring sites towards store development, assessing manpower needs and staffing stores and establishing brand presence. Although these partner contribution needs accords with Wrigley et al's (2005) argument that retailers are intrinsically interconnected to the property markets and planning systems of host countries, this operational expediency pressure may be justified by the time lag experienced in retailing between set-up costs and revenue streams (Clarke and Wrigley, 1997), encouraging retailers to achieve faster route to market through the joint venture partner in order to generate faster payback on investment.

Unlike manufacturing, retailing is spatially disaggregated and more essentially networked, with operational efficiencies more in the control of management at the local unit level and strongly connected to market-based tangible and intangible inputs (Wrigley et al, 2005). This explains why these retail TNCs were motivated to form IJVs, in part, to access experienced local partner management with superior knowledge of local trading conditions. Interestingly, these motivations further displayed strong dependency on the partner's tacit knowledge bank being potentially channelled within the areas of product-centred marketing and store merchandising. In contrast to manufacturing, the retail offering is different and far more complex, involving a mix of services, facilities and products, and the challenge to give consumers a unique and distinct combination of this (Burt et al, 2003). Moreover, as manufacturers usually operate in geographically dispersed and homogenous markets, retailers tend to interact with many diverse consumer segments within heterogeneous local markets, thereby requiring tacit understanding of multiple consumer segments, to include shopping habits and buying cycles, thus necessitating diverse merchandising and service strategies. Thus, when considering that the nature of learning in retailing is inherently store and distribution store based (Wrigley et al, 2005), these initial transfers of partner tacit knowledge perform a critical role in establishing retailer best practices across multiple stores in the store network.

In addition to acquiring local market knowledge, retail firms additionally acquire knowledge and learn with regards to joint venture management processes. The findings identified that a few retailers in the study have enhanced their learning of appropriate co-operative behaviour in the execution of joint ventures. The evidence illustrates that endeavouring to establish stable patterns of inter-organisational routines, some retailers and partners engage in collective learning. Retailers with limited joint venture experience find themselves subject to an immediate, intense partner and market learning environment. Whilst simultaneously concerned with achieving operational status and proposition refinement, management and partners also aim to establish task co-ordination, work flows, operating procedures and structures within the venture.

In terms of the aspired learning processes, the findings revealed that for some international retail joint ventures, market/customer knowledge acquisition and creation was very much a problem-solving process through store operational activity allowing retailers to discover and rectify process and in-store related problems. At a micro-operational level, retailers initially pursuing a quasi-replication strategy where operational units are established close to the home market proposition, immediately and aggressively engaged in knowledge building strategies to adapt merchandising, range assortment and store layout decisions. Joint venture partners significantly aim to contribute to this knowledge building strategy in two ways. Firstly, by assisting the retailer to *establish the in-store learning environment* through applying their context-specific capabilities to quickly and correctly establish the initial infrastructure and achieve operational status. Secondly, by directly *providing the conduits of knowledge creation or acquisition in this learning environment*; most notably through staff transfers and/or providing the recruiting capability to staff store labour needs.

In this experiential learning environment, the findings capture that knowledge does not strictly flow unidirectional from retailers/partners to consumers. Rather, consumers provide tacit knowledge to retailers through in-store behaviour, dialogue and interaction that itself provides valuable stimuli and cues to retailers which then can be interpreted for proposition refinement (Curragh and Wrigley, 2004; Palmer, 2005). In this interpretation process, partners often act as valuable interpreters of these consumer responses leading to management action within this trial-and-error and problem solving approach. Additionally, partners and retailers aim to jointly deploy internal resources to execute consumer research that evokes further consumer responses and understanding. Thus, partners acting themselves as consumers detect and correct errors in the proposition. Indeed, with this experiential store learning there is often an iterative process occurring, with knowledge moving between management-consumer and partner. Although knowledge acquisition at this level appears highly fluid, largely driven by managerial involvement and processes of intuition, interpretation and integration, there exists a clear and deliberative intent to produce such knowledge for most retail firms in the study.

This evidence on experiential learning strongly supports what is known as the learning region thesis established in economic geography (Cooke and Morgan, 1998). This argues that the production of tacit knowledge occurs simultaneously with the act of transmission primarily through user-production interaction (Gertler, 1995).

Conclusion

A glance at that wider discourse on internationalization/globalization might suggest that the shift beyond traditional production-led internationalization and the emergence of retail TNCs' in driving and shaping global marketplaces had effectively been 'airbrushed out' of the literature. It is remarkable that this situation has prevailed for years and that so much of contemporary retail internationalization is ignored. This article has attempted to redress this treatment by drawing upon the experiences of four British retail TNCs and utilizing insights from the knowledge-based view of the firm to examine the IJV motivations within the retail sector. The findings suggest that, when considering a joint venture strategy, motives are strongly tied to the degree of awareness of host market barriers. A striking feature of the retailers' motivations is the way that joint venture decisions are enabled, constrained and clouded by gloomy perceptions of the host market economic geography during the consideration period. The resulting conclusion is that, due to the high degree of spatial complexity for retailers in the host market, the emphasise is placed on IJV being a strong mechanism for knowledge accessing, with partner knowledge constituting an overwhelmingly important resource in terms of achieving immediate market entry and effective market positioning. The study elaborates the knowledge-based view of the firm within the context of international retail joint ventures by identifying the varied types of knowledge that internationalising firms aspire to acquire when entering a joint venture with a foreign partner. The study also contributes to the knowledge-based theory of the firm by uncovering the firms' expectations as to the mechanisms and processes of knowledge acquisition within an international retail joint venture.

References

Barney, J.B. (1991), Firm resources and sustainable competitive advantage, *Journal of Management*, 17, 99-120.

Bianchi, C. C. and Ostale, E. (2006). Lessons learned from unsuccessful internationalization attempts: Examples of multinational retailers in Chile, *Journal of Business Research*, 59/1, 140-147.

Blodgett, L. (1991). Partner contributions as predictors of equity share in international joint ventures, *Journal of International Business Studies*, 22/1, 63-78.

Burt, S. (1991). Trends in the internationalization of grocery retailing: A European Experience, *The International Review of Retail, Distribution and Consumer Research*, 1/4, 487-515.

Burt, S., Dawson, J. Sparks, L. (2003). Failure in international retailing: Research propositions, *The International Review of Retail, Distribution, and Consumer Research*, 13/4, 355-371.

Clark, G. L. and Wrigley, N. (1997), Exit, the firm and sunk costs: reconceptualising the corporate geography of disinvestment and plant closure, *Progress in Human Geography*, 21/3, 338-58.

Cohen, W. M. and Levinthal, D. A. (1990). Absorptive capacity: A new perspective on learning and innovation, *Administrative Science Quarterly*, 35/1, 128-152.

Contractor, F. J. and Lorange, P. (1988). *Cooperative Strategies in International Business*, Lexington, Mass: Lexington Books.

Cooke, P. and Morgan, K. (1998). *The associational economy:firms, regions, and innovation*. Oxford: Oxford University Press.

Currah A. D., Wrigley N. (2004). Networks of organizational learning and adaptation in retail TNCs. *Global Networks*, 4, 1–23.

Das, T.K. and Teng, B. (2000). A Resource-based theory of strategic alliances, *Journal of Management*, 26/1, 31-61.

Davies, P. S., Desai, A. P. and Francis, J. D. (2000). Mode of international entry: An isomorphism perspective, *Journal of International Business Studies*, 13/2, 239-558.

Dawson, J.A. (1994), Internationalisation of retail operations, *Journal of Marketing Management*, 10, 267-82.

Dawson, J. A. (2003). *The Internationalization of Retailing in Asia*, Routledge.

Dunning, J. H. (2000). *Regions, Globalization, and the Knowledge-Based Economy*, Oxford Scholarship Online Monographs.

Dyer, J. H. and Singh, H. (1998). The relational view: Cooperative strategy and sources of interorganizational competitive advantage, *The Academy of Management Review*, 23/4, 660-679.

Eisenhardt, K. M. (1989), Making fast strategic decision in high-velocity environment, *Academy of Management Journal*, 32/3, 543-576.

Geringer, J.M. and Hebert, L. (1989). The importance of control in international joint ventures. *Journal of International Business Studies*, 20, 235-254.

Gertler, M.S. (1995) 'Being there': proximity, organization, and culture in the development and adoption of advanced manufacturing technologies, *Economic Geography*, 71, 1-26.

Glaister, K. W. (2004). The rationale for equity joint venture, *European Management Journal*, 22/6, 493-507.

Glaister, K.W. and Buckley, P.J. (1996), Strategic motives for international alliance formation, *Journal of Management Studies*, 33/3, 301-332.

Goldman, A. (2001). The transfer of retail formats into developing economies: The example of China, *Journal of Retailing*, 77/2, 221-242.

Grant, R. M. (1997). The knowledge-based view of the firm: Implications for management practice, *Long Range Planning*, 30/3, 450-454.

Grant, R. M. and Fuller, G. (2004). A knowledge assessing theory of strategic alliances, *Journal of Management Studies*, 41/1, 61-84.

Hamel, G. (1991), Competition for competence and interpartner learning within international strategic alliances, *Strategic Management Journal*, 12/S1, 83-103.

Hennart, J.F. (1991). The transaction cost theory of joint ventures: An empirical study of Japanese subsidiaries in the United States, *Management Science*, 37/4, 483-497.

Hollander, S.C. (1970), *Multinational Retailing*, Michigan State University, MI.

Inkpen, A. C. (2000). A note on the dynamic learning alliances: Competition, cooperation and relative scope. *Strategic Management Journal*, 21/7, 775-779.

Jonsson, A. and Elg, U. (2006). Knowledge and knowledge sharing in retail internationalization: IKEA’s entry into Russia, *The International Review of Retail, Distribution and Consumer Research*, 16/2, 239-256.

Kacker, M. (1988). International flow of retail know-how: bridging the technology fap in distribution, *Journal of Retailing, 64*(Spring), 41–67.

Keeble, D., Bryson, J. and Wood, P (1991). Small firms, business services growth and regional development in the UK: Some empirical findings, *Regional Studies*, 25, 439-457.

Kogut, B. (1988). Joint ventures: Theoretical and empirical perspectives, *Strategic Management Journal*, 9/4, 319-332.

Kogut, B. (1991). Joint ventures and the option to expand and acquire, *Management Science*, 37/1, 19-33.

Kogut, B. and Singh, H. (1988). The effect of national culture on the choice of entry mode, *Journal of International Business Studies*, 19/3, 411-432.

Larsson, R., L. Bengtsson, K. Henriksson and J. Sparks (1998), The interorganizational learning dilemma: Collective knowledge development in strategic alliances, *Organization Science*, 9/3, 285-305.

Marti, P. and Smiley, R. H. (1983). Cooperative agreements and the organisation of industry, *The Journal of Industrial Economics*, 31, 437-451.

Meyer, J and Rowan, B. (1977). Institutionalized organizations: formal structures as myth and ceremony, *American Journal of Sociology*, 83, 340-360.

Mowery, D. C., Oxley, J. E. and Silverman, B. S. (1996). Strategic alliances and interim knowledge transfer, *Strategic Management Journal*, 17, 71-91.

Muskett, D. (2000). Sainsbury's and Shaw's: reflections on making an acquisition a reality, in: Oldfield, B. M., Schmidt, R. A., Kirkup, M., Hart, C. and Clarke, I. (Eds) *Contemporary Cases in Retail Operations Management*, London: Macmillan Press.

Nanda, A. and Williamson, P. J., (1995), Use joint ventures to ease the pain of restructuring, *Harvard Business Review*, 119-128.

Oliver, C, (1990). Determinants of interorganizational relationships: Integration and future directions, *Academy of Management Review*, 15, 241-265.

Palmer, M. (2005). Retail Multinational Learning: A Case Study of Tesco, *International Journal of Retail and Distribution Management*, 33/1, 23-49.

Palmer, M. and Quinn, B. (2007). The nature of international retail divestment: Insights from Ahold, *International Marketing Review*, 24/1, 26-45.

Patton, M. Q. (1990). *Qualitative Evaluation and Research Methods*, Newbury Park, CA: Sage.

Penrose, E. T. (1959). *The Theory of the Growth of the Firm*, New York: John Wiley.

Porter, M. E. and Fuller, M. B. (1986), Coalitions and global strategy. In Porter, M. E. (ed.), *Competition in Global Industries*, Boston: Harvard Business School Press.

Prahalad, C. K. and Hamel, G. (1994). Strategy as a field of study: Why search for a new paradigm? *Strategic Management Journal*, Summer Special, 15, pp. 5–16.

Shenkar, O. and Li, J. (1999). Knowledge search in international cooperative ventures, *Organization Science*, 10/2, 131-214.

Sternquist, Brenda. (1998). *International Retailing*. New York, NY: Fairchild Publications.

Teece, D. J. (1992). Competition, cooperation, innovation: Organizational arrangements for regimes of rapid technological progress', *Journal of Economic Behavior and Organization*, 18/1, 1–25.

Teng, B. S. (2007). Corporate entrepreneurship activities through strategic alliances: A resource-based approach towards competitive advantage, *Journal of Management Studies*, 44/1, 119-142.

Wernerfelt, B. (1984). A resource-based view of the firm, *Strategic Management Journal*, 5/2, 171-180.

Wrigley, N., Coe, N.. M., and Currah A. D. (2005). Globalizing retail: conceptualizing the distribution-based transnational corporation (TNC). *Progress in Human Geography*, 29, 437–457.

Wrigley N. (2000). The globalization of retail capital. In Clark, G. L., Feldman, M. P. and Gertler, M. S. (eds.), *The Oxford Handbook of Economic Geography*, Oxford: Oxford University Press, 292–313.

Yin, R.K. (1994), *Case Study Research: Design and Methods*, 2nd ed., Newberry Park, CA: Sage

Table I: Overview of Companies in Research

Code	Sector	Market (s)	Partner Type	Ownership (@ formation)	Date Established
Company 1	Food	Thailand South Korea Malaysia	Retailer (nc*) Retailer (nc) Retailer (nc)	75:25 81:19 35:65	1998 1998 2002
Company 2	Home Improvement	Taiwan	Exporter/importer	50:50	1995
Company 3	Furniture	Taiwan	Retailer	50:50	1999
Company 4	Music	Japan	Retailer	50:50	1991

*Nc: Non-Core retailer

Table II: Details of Data Collection

Code	Date of Interviews	Personnel involved	Location of Interviews
Case 1	May 2003, June 2004	Directors	Head Office (UK)
Case 2	May 2003, Nov 2003	Directors and Managers	Head Office (UK)
Case 3	May/July 2003	Directors and Managers	Head Office (UK)
Case 4	August, 2002, June 2004	Directors and Managers	Head Office (UK)