

Are joint ventures between Japanese and Western Firms Vehicles for Innovation and Change or Zero-Sum Learning Races? A test of the Trojan Horse Hypothesis

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There are two strands to the literature on international joint ventures (IJVs). The first stresses that IJVs are undertaken to achieve “collaborative specialization” (Hennart 1988; Ishii 2003; Zeng and Hennart 2002). Partners use IJVs to combine complementary resources so as to do things which they could not achieve by themselves. To create such value, partners invest in collaborating with one another. Once these investments are made, they have interest in maintaining relationships for considerable periods of time. Hence IJVs will be long-lived.

The second strand sees IJVs as learning races in which firms seek to internalize the knowledge contributed by their partners to the IJV (Peng 2001). Each partner then transfers this knowledge to its wholly-owned operations and use it to compete with the IJV and with the partner. Once one partner has acquired the knowledge of the other, he will seek to dissolve the IJV. Hence IJVs are inherently short-lived. One version of the learning race view is the so-called Trojan Horse Hypothesis (THH). Hamel (1991) and Reich and Mankin (1986) have argued that the Japanese enter foreign markets through IJVs with Western partners to steal their technology and skills and that they win such learning races over their Western partners because they have greater intent, more receptivity, and less transparency.

Which of these two views, cooperative specialization or THH, describes best the IJV behavior of Japanese firms? This is the topic of this paper.

We have seen that each of these two theories has clear implications for IJV survival. IJVs undertaken for collaborative specialization should be quite stable. IJVs used as Trojan Horses should be short-lived. Once they have learned from their foreign partners, Japanese firms should dissolve the IJVs by forcing its liquidation or forcing their foreign partners to sell their stakes to them. A third, but less likely scenario, is that the Japanese partners will sell their stake to their foreign partners and set up parallel, wholly-owned affiliates. Hence the way to ascertain whether Japanese firms use market-entry IJVs as Trojan Horses is to look at the stability of their IJVs. Specifically, we will compare the number of Japanese-foreign IJVs (i.e. used by Japanese firms to enter foreign markets) which are stable, and hence behave in ways

compatible with collaborative specialization, to the number of IJVs which are unstable, and hence whose evolution follows the prediction of THH? We will also ascertain whether the percentage of Japanese market entry IJVs which are unstable is higher than that of IJVs used by Western firms entering Japan.

We will therefore compare the evolution of the population of IJVs with Western firms used by Japanese firms to enter Western markets to that of IJVs with Japanese firms used by Western firms to enter Japan. We will count how many of these IJVs did not change status over a nine year period and hence exhibit cooperative specialization, and how many have seen their status changed, either by being bankrupted, acquired by their focal firms, or sold by focal firms, and hence show an evolution which is consistent with THH. By comparing the stability of the IJVs used by Japanese firms to enter Western markets to that of the IJVs used by Western firms to enter Japan, we can also ascertain whether Japanese firms exhibit more THH behavior than their Western rivals.

