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Stability of international joint ventures: When experience and age overshadow host country risk

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ABSTRACT

This study examines how host country risk affects the stability of international joint ventures (IJVs). Besides, it examines the moderating impact of experience in the host country and age of the IJV on the association between country risk and IJV stability. We use transaction cost economics (TCE) to hypothesize a detrimental impact of host country risk and IJV stability. Additionally, we integrate TCE and knowledge-based theory (KBT) to develop the hypotheses suggesting that the negative association between country risk and IJV stability is moderated by experience in the IJV's host country and the age of the IJV. Using a dataset on 140 IJVs established between French and cross-border partners, and employing event history analysis to assess IJV stability over time, we find that host country risk has a detrimental impact on IJV stability. Furthermore, we find that the degree of experience possession in IJV's host country and the age of the IJV moderate the negative association between host country risk and IJV stability.

1. Introduction

Environmental conditions are figured among the central issues considered by multinational enterprises (MNEs, hereafter) (Adarkwah and Benito, 2023; Barbaglia et al., 2023; Kano and Iriyama, 2023; Li and Xiong, 2022; Sartor and Beamish, 2018). Among these conditions, host country risk is particularly noteworthy due to its potential impact on MNEs' business opportunities in foreign host countries (Henisz et al., 2010). Host country risk pertains to the uncertainties faced by businesses operating in foreign countries, arising from political, economic, and financial factors. The consideration of host country risk significantly influences MNEs' strategic decisions (Chan and Makino, 2007; Chen et al., 2017; Demirbag et al., 2010; Kano and Iriyama, 2023; Li and Xiong, 2022; Sartor and Beamish, 2018; Yiu and Makino, 2002). One of the strategic choices influenced by host country risk is the decision between establishing an international joint venture (IJV) or a wholly-owned subsidiary (WOS) (Makino and Neupert, 2000; Yiu and Makino, 2002). Literature on market entry mode suggests that IJV is preferred over WOS in risky host countries (Chan and Makino, 2007; Demirbag et al., 2007; Demirbag et al., 2010; Williamson, 1991; Yiu and Makino, 2002).

IJVs are organizations established by at least two partners from different countries, where each partner holds an equity stake. IJV is a common market entry mode used by MNEs, as it provides access to knowledge about foreign markets (Kale and Anand, 2001), allows the acquisition of technology and know-how (Hamel, 1991), sharing of business risks, and achieving economies of scale and size effects (Contractor and Lorange, 1988; Kogut and Singh, 1988). Furthermore, IJVs are often established due to restrictions on foreign

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ownership in many industries and countries around the world (Pan, 2017; Puck et al., 2009). However, studies reveal a high rate of instability among IJVs (Aib et al., 2023; Iriyama and Madhavan, 2014; Perkins et al., 2014), particularly when compared to WOS (Perkins et al., 2014). Paradoxically, dealing with host country risk does not end with the choice of market entry mode (Feinberg and Gupta, 2009), as host country risk can persist to affect even IJV during operation.

Considering previous literature on equity-based IJV instability (e.g. Aib et al., 2023; Blodgett, 1992; Franko, 1971; Hui et al., 2020), we refer by IJV instability to an unplanned partial and whole acquisition of IJV's ownership, liquidation or sell-off to an exterior party. While the literature on the association between host country risk and market entry mode is relatively well established (e.g. Anderson and Gatignon, 1986; Chen et al., 2017; Delios and Henisz, 2000; Li and Xiong, 2022), the literature on the impact of host country risk on IJV stability has produced inconclusive findings (e.g. Meschi, 2005; Meschi and Riccio, 2008).[1] This may be attributed to the adoption of a holistic approach rather than separating planned and unplanned instability events, which should be considered in IJV instability research (Aib et al., 2023; Makino et al., 2007). Contrary to planned events, which often imply a successful IJV (Makino et al., 2007), IJVs face unplanned instability when partners encounter significant hurdles (Chung and Beamish, 2010; Donaldson, 1987; Donaldson, 2001). When companies recognize that the current partnership offers limited opportunities for progress, they may opt to disengage, even if it means exiting without tangible benefits. We therefore exclude planned events, and rather focus exclusively on unplanned instability events. Moreover, despite the appeal to investigate the impact of partner-specific and IJV-specific variables (Meschi and Riccio, 2008), the literature remains salient on the moderators that affect the relationship between host country risk and the higher rate of instability among IJVs. In this study, we consider two moderating factors, namely experience in IJV's host country and age of the IJV.

Experience in IJV's host country refers to the duration that an MNE has spent operating investments in a host country. It has been shown as a major determinant of international expansion (Barkema and Drogendijk, 2007; Johanson and Vahlne, 1977; Meyer and Wang, 2015) and multinational subsidiary performance (Delios and Beamish, 2001; Luo, 2009; Wu and Lin, 2010). On the other hand, age of the IJV refers to the duration that IJV partners have spent together since the establishment of the IJV. It has been demonstrated to have a positive influence on IJV performance (Delios and Beamish, 2001; Luo, 2009). We expect that both the degree of possessed experience in the host country and the age of the IJV to moderate the negative association between host country risk and IJV stability.

Our study contributes to IJV stability literature in three significant ways. Firstly, it extends two prominent theoretical frameworks—transaction cost economics (TCE) and knowledge-based theory (KBT)—by providing new theoretical arguments and empirical evidence on the associations between host country, adaptation costs, opportunism, and IJV stability. Specifically, the study advances TCE by demonstrating how country risk influences adaptation costs and opportunistic behavior, which in turn affect the stability of IJVs, contributing to the governance choice related to the interface between firms and their external environment (Hennart and Verbeke, 2022; Williamson, 1996). Additionally, the study integrates TCE and KBT to investigate how the degree of experience in the IJV host country and the IJV's age moderate the relationship between host country risk and IJV stability, a novel contribution to understanding the complex dynamics influencing IJV stability.

Secondly, this study provides refined results by considering exclusively unplanned instability events, which indicate poor IJV performance and the need for structural adjustment (Chung and Beamish, 2010; Donaldson, 1987; Donaldson, 2001). This contrasts with prior studies that did not distinguish between planned and unplanned instability events (e.g. Meschi, 2005; Meschi and Riccio, 2008). Planned instability can reflect successful IJV outcomes (Makino et al., 2007), often anticipated in contracts or within industries like hydrocarbons and construction. By focusing on unplanned events, we provide a more refined understanding of the factors affecting IJV stability.

Lastly, the study contributes to the existing body of knowledge on IJV stability by analyzing multi-country data (e.g. Hui et al., 2020). Unlike prior studies that focused on single countries (e.g. Luo, 2007; Meschi and Riccio, 2008), or on a specific level of countries (e.g. Lu and Hébert, 2005; Meschi, 2005), we provide a broader perspective that comprehensively investigates the impact of host country risk on IJV stability across various developed and developing countries.

2. Theory and hypotheses development

2.1. *TCE, country risk and IJV stability*

TCE posits that hybrid modes are suitable for entering risky countries (Williamson, 1991), making it an essential element in the literature on the association between environmental conditions and market entry mode. IJVs are preferred over other entry modes in risky markets because of their risk and resource sharing benefits. IJV parties are able to reduce their engagement in the joint structure without losing their entire investment (Contractor and Lorange, 1988; Osborn and Baughn, 1990), while also leveraging their resources to achieve a collaborative competitive advantage (Buckley and Casson, 1988; Parkhe, 1991). Our study extends TCE to explain the relationship between host country risk and IJV stability.

In addition, TCE suggests that IJV is preferred over WOS under uncertainty. However, the theory suggests that hybrid modes, such as IJV, may suffer from internal uncertainty due to the opportunistic behavior that may arise within the IJV (Luo, 2007; Parkhe, 1993). Hence, partnering firms face external besides internal uncertainty, which should be managed simultaneously (Miller, 1992; Shrader et al., 2000). These uncertainties should be considered together, rather than dealt with separately (Miller, 1992), since risk perception

[1] Table 1 presents a list of empirical researches that have investigated the relationship between host country risk and IJV stability.

may differ among partnering firms (Shrader et al., 2000). Yan (1998) argues that managing IJVs in countries characterized by higher risk is particularly challenging. Merely choosing IJV as an entry mode might be insufficient to overcome the consequences of higher country risk. IJV instability may be due to the same reason that led to the establishment of the IJV in the first place, namely the higher country risk characterized by higher environmental uncertainty. Therefore, IJVs must leverage their tangible and intangible resources to deal with environmental uncertainty. While international business scholars contribute to the literature on how MNEs deal with host country risk (e.g. Adarkwah and Benito, 2023; Feinberg and Gupta, 2009), our study proposes two variables by which environmental uncertainty may be mitigated: experience in the IJV's host country and age of the IJV (see Fig. 1).

Table 1
Main findings of the impact of country risk on IJV stability.

Study	Instability mode	Theory	Theoretical rationale	Findings
Barkema and Vermeulen (1997)	Termination	N.A.	N.A.	Insignificant
Lu and Hébert (2005)[a]	Exit	N.A.	N.A.	Insignificant
Meschi (2005)	Termination via dissolution, sell-off or acquisition	Population ecology of organizations and industrial organization theories	Country risk is characterized by environmental uncertainty. Likely with any organization, environmental uncertainty threatens IJV performance and survival.	Negative impact of the economic risk, but insignificant of the political risk.
Meschi (2005)	Termination via dissolution, sell-off or acquisition	Transaction cost and resource dependence theories	Under uncertainty, foreign partners are more likely to maintain their IJVs established with local partners, since they have access to distribution channels, knowledge of local regulations and relations with government. In addition, they share governance costs, compared internal organizations.	Negative impact of the economic risk, but insignificant of the political risk.
Meschi and Riccio (2008)[a]	Termination via dissolution, acquisition/sell-off by/to local/ foreign partner, sell-off to a third party, or entire sell-off to a third party.	Population ecology of organizations and industrial organization theories	Environmental uncertainty increases the chances of IJV initial agreement renegotiation, which is often difficult to apply because of the rejection of modified positions and roles.	Insignificant
Lowen and Pope (2008)	Dissolution	N.A.	Political instability leads parents of the home country to spread risk via IJV, which is in turn affected by the unfavorable political environment.	Negative impact
Dhanaraj and Beamish (2009)	Mortality	Institutional economics and organizational ecology	Political openness, represented in treating international investments equitably, MNEs are more likely to implement their chosen investment policies.	Negative impact
Puck et al. (2009)	Conversion of JV into WOS	Transaction cost theory	The perceived low degree of external uncertainty, represented in political, legal, economic and social risks, has a positive impact on the likelihood of cooperation with a local partner rather converting JV to WOS.	Negative impact
Puck et al. (2009)	Conversion of JV into WOS	Institutional theory	The perceived complexity of government regulations has a positive impact on the likelihood of cooperation with a local partner rather converting JV to WOS.	Positive impact
Chung and Beamish (2010)[a]	- Ownership change - Termination	N.A.	N.A.	Negative impact of political risk on IJV ownership stability and survival
Xia (2011)[a]	Exit	N.A.	N.A.	Insignificant
Chung and Beamish (2012) [a]	Termination	N.A.	N.A.	Negative impact of political risk on IJV ownership stability and survival
Lu and Ma (2015)	Exit	N.A.	N.A.	Positive
Triki et al. (2023)	Termination	N.A.	Unfavorable political environment, represented in weak political institutions, negatively affects foreign direct investments, including IJVs.	Insignificant

N/A. Not available.
[a] . The study included environmental risk as a control variable.

2.2. Host country risk

Host country risk is one of the factors that determine market entry mode and its governance after establishment. The literature on market entry mode suggests that IJV is preferred over WOS when the host country is risky (e.g. Chan and Makino, 2007; Demirbag et al., 2007; Demirbag et al., 2010; Yiu and Makino, 2002). However, TCE suggests that host country risk can also destabilize IJVs, as it increases internal uncertainty (Luo, 2007), which in turn influences IJV partners' commitment to the venture. Despite a few studies that explain the relationship between host country risk and survival (e.g. Meschi, 2005; Meschi and Riccio, 2008), and others that consider host country risk as a control variable (e.g. Chung and Beamish, 2010; Chung and Beamish, 2012; Xia, 2011), host country risk has not been thoroughly examined in terms of IJV stability. Moreover, findings reported in the literature remain inconclusive (see Table 1).

An International Joint Venture (IJV) is an organizational structure that is established due to a variety of environmental factors (Brouthers, 2002; Dikova and Witteloostuijn, 2007; Sartor and Beamish, 2018). The political environment of a country reflects its political regimes, actions, and policies implemented by political actors, as well as security measures that ensure political stability and prevent conflicts. This includes the democratic accountability of the government and state leaders, as well as their responsiveness to political rights and civil liberties. Political risk refers to the likelihood of unfavorable political change in the state regime and policies made by the regime. Previous studies highlighted the negative impact of a weak regime on the operation of multinational companies and their subsidiaries (Darendeli et al., 2021; Darendeli and Hill, 2016), which places an IJV in a state of external uncertainty (Agarwal and Ramaswami, 1992; Delios and Henisz, 2000). Therefore, the complexities of doing business increase in political institutions, and dealing with political officials becomes more complicated. Moreover, the future and orientation of the regime are ambiguous, which prompts IJV partners to exert structural changes.

From an economic standpoint, country risk refers to the devaluation of local currency, increases in interest and inflation rates, government inability to pay its debts, and other default payments. These factors detrimentally influence macroeconomic indicators, such as consumption and real Gross Domestic Product (GDP). Moreover, a country is economically risky when access to bank finance and capital markets is unattractive. These high-risk institutional conditions have a detrimental impact on the financial performance of IJVs.

In a risky environment, IJV partners face elevated costs associated with imperfect information, which may lead to unexpected outcomes and affect organizational decision alternatives (Delios and Henisz, 2003; Dess and Beard, 1984). Starting with IJV establishment, it is extremely challenging to specify an IJV contract under uncertainty (Ariño and Reuer, 2004; Luo, 2005), which implies operating IJV with incomplete contract. Contract incompleteness leads IJV to suffer from opportunism and higher transaction costs (Gong et al., 2007). The impact of uncertainty also continues during IJV operation, since it weakens the relationship and amplifies calculations between IJV partners (Hennart, 1988; Williamson, 1985). Furthermore, IJV executives may reduce their commitment to avoid host country risk implications. IJV partners, as a result, would not be able to avoid the effects of external turbulence, and may behave opportunistically, which further destabilizes the IJV.

Hypothesis 1. The level of IJV's host country risk has a detrimental impact on IJV stability.

2.3. Influence of experience in the IJV's host country

The role of international experience is widely recognized as crucial in the process of internationalization. The Uppsala model of internationalization (Johanson and Vahlne, 1977) posits that internationalization is an incremental process of experiential learning. Firms that possess knowledge acquired through experience in a host country are in advantage (Brouthers et al., 2008; Goerzen et al., 2010; Maitland and Sammartino, 2015). Building knowledge and capabilities on the host country's environment is important in overcoming problems related to unfamiliarity with that environment (Barkema and Drogendijk, 2007; Barkema et al., 1997; Delios and Beamish, 2001).

KBT views a firm as a store of knowledge and competencies (Grant, 1996; Kogut and Zander, 1993, 1996). When parents possess host country experience, they are more likely to reduce the impact of the risks related to the initial liability of foreignness (Zhou and Guillén, 2015). This is because they transfer knowledge to their IJV, which increases the likelihood of successful operation by reducing the scope of their competitive disadvantage (Delios and Beamish, 2001). In addition, experience in the host country may help cross-border enterprises to generate strategic flexibility (Kogut and Kulatilaka, 1994; Lee and Makhija, 2009), which increases internal responsiveness to risk (Shimizu and Hitt, 2004). Partners possessing this specific experience are often well-equipped to handle communication and dealing with political actors in the host country. Furthermore, they are more likely to recognize and understand host market signals (Iriyama and Madhavan, 2014). Moreover, they are more likely to possess collaboration skills with partners operating in the same country.

Dealing with institutional idiosyncrasies is crucial for IJVs to succeed in foreign markets. As Henisz (2003) suggested, having the ability to recognize and understand potential hazards and opportunities is key in managing institutional risks. Additionally, being able to block adverse policy changes and promote favorable ones can be critical in navigating regulatory hurdles and gaining access to necessary resources. Moreover, the ability to continuously improve in these areas over time can enhance the IJV's adaptability and resilience in the face of changing institutional conditions. When IJV partners possess knowledge about politically risky country, they are better equipped to navigate and manage institutional risks. They may engage in proactive measures such as lobbying, building informal networks (Moschieri et al., 2024), and financing politicians or parties that can promote IJV-related business opportunities.

IJVs established by parent firms that possess host country experience possess advantages in identifying business opportunities in risky environments and managing unfavorable economic conditions (Iriyama and Madhavan, 2014), and gaining familiarity with the host markets (Shi et al., 2014). For instance, these parents possess knowledge of low-cost strategies that can be adopted in response to decreases in consumption or increases in inflation rates, and are able to diversify financing sources and types in the face of expensive bank finance.

To mitigate legal risk hazards, IJV partners often establish networks with political actors (Mellahi et al., 2016; Moschieri et al., 2024), including government officials, policy makers, parties, and parliamentarians. Therefore, parent firms with host country experience tend to possess knowledge of both formal and informal means of obtaining rights in cases of legal arbitration (Moschieri et al., 2024). Therefore, we argue that experience possessed in IJV's host country exerts a moderating impact on the negative association between host country risk and IJV stability.

Hypothesis 2. Experience in the IJV's host country moderates the detrimental impact of host country risk on IJV stability.

2.4. *Influence of the IJV's age*

We also suggest that the age of the IJV plays an important role in handling the impact of host country risk on IJV stability. TCE postulates that the performance of exchange relationships depends on the partners' ability to minimize transaction costs by aligning suitable attributes (Dyer and Singh, 1998; Hennart, 1988; Hennart, 1991; Hennart and Verbeke, 2022). One of the attributes that affects opportunism in an IJV is the age of the IJV (Parkhe, 1993). At the IJV establishment stage, IJV partners are typically unfamiliar with each other, which is compounded by their differing institutional backgrounds.

Over time, IJV partners can overcome the liabilities of newness. IJV serves as a mechanism for firms to learn from partners and acquire knowledge (Fiol and Lyles, 1985; Lyles and Salk, 1996, 2007), which in turn contributes to their business performance (e.g. Hamel, 1991; Lyles and Salk, 1996, 2007). Through this learning process, IJV partners develop a better understanding of the external uncertainties and build knowledge and competencies to deal with them. This knowledge and these competencies are acquired through a routine-based, history-dependent, and target-oriented fashion (Levitt and March, 1988). In other words, learning occurs in an iterative mechanism when a firm engages in a focal activity, draws inferences from its experience, and is able to exploit past experience in the future engagements of the focal activity (Levitt and March, 1988). Doz (1996) suggested that tasks are achieved more effectively as long as partners have experience in their alliance. Overtime, IJV partners can reduce coordination and monitoring costs, and assign specific tasks more efficiently, as they become familiar with each other's resource characteristics (Konara et al., 2020). They also build their relational capability (Konara et al., 2020) and thus overcome internal uncertainty.

In addition, an IJV operating in a risky environment gains legitimacy over time and is better able to navigate environmental constraints. Older IJVs have better external relationships with business actors compared to younger IJVs, as they have acquired knowledge and skills to efficiently deal with these institutions over time (Mohr et al., 2016). This enables them to gain access to finance, define better business opportunities, and preserve their IJV. Additionally, older IJVs build internal legitimacy, as routines are known, and an environment of trust and forbearance is developed (Park and Ungson, 1997). In other words, each partner would have experience in how the other partner reacts in a specific context of uncertainty.

Hypothesis 3. IJV's age moderates the detrimental impact of host country risk on IJV stability.

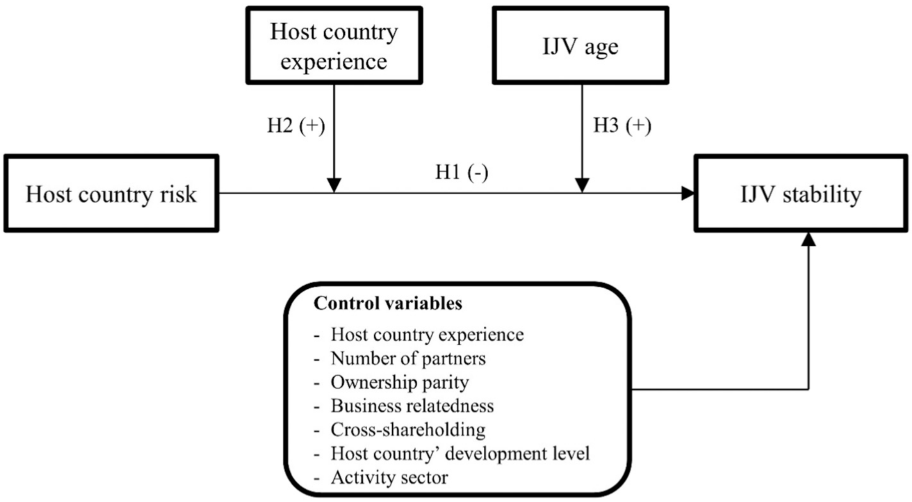

Fig. 1. Research model.

3. Research methodology

3.1. Sample and data

We constructed our dataset by extracting information on all French-foreign JVs that were established outside of France between 2009 and 2010 with a time window up to June 2022. We opted for this dataset due to the limited attention given to the context of French-foreign JVs, so as to provide a novel context to the IJV stability literature. Additionally, France holds a position among the top 10 countries globally in terms of outward foreign direct investment (UNCTAD, 2021). Furthermore, France ranked third in total outward investment flows in 2009 and 2010. In contrast to previous studies in IJV stability (Mohr et al., 2016; Wang et al., 2023; Weng and Tang, 2024), we provide results based on a recent period of analysis. We tracked the progression of each French-foreign JV until the conclusion of June 2022, ensuring an adequate analysis period that mitigates the bias associated with the initial honeymoon phase.

We utilized the Factiva database, which is provided by Dow Jones News Corporation. However, the Factiva database did not provide sufficient information on the duration of the firms' presence in the host countries or on the characteristics of the parent firms and IJVs. Likely with previous studies (e.g. Aib et al., 2023; Mohr et al., 2016), we therefore supplemented missing information by collecting data from the official websites, press releases, annual activity reports, documents of references and financial statements of the parent firms. Additionally, we collected data on the risk of countries hosting French IJVs from *Euromoney Institutional Investor*. To ensure that we only included unplanned cases of instability, we verified all instability incidents through online searches and by contacting the parent firms of the IJVs. After verifying all established IJVs, we compiled a list of 140 French-foreign JVs.

The primary countries hosting French-foreign JVs were China, with 20 French-foreign JVs (13.61 %), India, with 18 French-foreign JVs (12.24 %), and Russia, hosting 13 French-foreign JVs (8.84 %) (Table 2). Out of the total of 140 French-foreign JVs in our dataset, 65 (46.42 %) were deemed unstable, while 75 (53.57 %) remained stable. The average duration to the instability event for the unstable IJVs in our dataset was approximately 97 months. Our findings indicate that the probability of IJV instability increased during the first five years, after which it started to decrease from the sixth year following the establishment of the IJVs (Fig. 2).

3.2. Measures

3.2.1. Dependent variable

To test our research hypotheses, we utilized event history analysis. Likely with previous studies (e.g. Hui et al., 2020; Mohr et al., 2016; Wang et al., 2023), our dependent variable comprised two interconnected parts (Cleves et al., 2010). The first part was dichotomous and reflected the IJV stability status. In coding this variable, we assigned a value of 1 to IJVs that underwent at least one unplanned instability event and 0 to those that did not experience any such event. Following (Franko, 1971), we defined IJV instability as any unplanned partial or whole acquisition, liquidation, or sale of IJV equity to an external party. The second part of the dependent variable was continuous and reflected the time (measured in months) from the inception of the IJV to the date of the experienced instability event or the cut-off date.

3.2.2. Independent, moderating and control variables

The principle independent variable in this study is IJV's host country risk (host country risk in Tables 3 and 4). As per the measure suggested by Meschi and Riccio (2008), we employed the *Euromoney country risk* total ratings to assess the level of risk in the IJVs host countries. The level of host country risk. Specifically, we used the ratings of the year of in which the IJV was established. The *Euromoney country risk* total ratings range from 0 to 100 and is based on various attributes, including based on political risk (25); economic performance (25); debt indicators (10), debt in default or rescheduled (10); credit rating (10); access to bank finance (5); access to short-term finance (5); access to capital markets (5); and forfaiting (5). A lower *Euromoney country risk* total ratings indicate a higher level of risk in the respective country. To avoid any potential confusion with the regression outcomes, we used the formula:

$$CR = 100 - CR_h$$

In this formula, CR_h represents the total *Euromoney country risk* rating of the host country that hosts the observed IJV.

Our first moderator is experience in the IJV's host country (host country experience in Tables 3 and 4). Likely with prior studies (Delios and Beamish, 2001; Dikova and Witteloostuijn, 2007), we assessed the level of experience in the IJV's host country by considering the number of years that the foreign partner had invested in the two-digit SIC industry of the IJV's host country.[2] The second moderator is age of the IJV (IJV age in Tables 3 and 4), which we calculated as the natural logarithm of the number of months between the date of IJV establishment and either the date of termination or cut-off.

We also incorporated controls that were identified to have influence on IJV stability. Previous studies have shown that an elevated number of partners negatively affects IJV performance and survival (e.g. Aib et al., 2023; Gong et al., 2007; Hennart and Zeng, 2002). We measured this control variable as the number of partners involved in establishing the IJV. Existing research has also highlighted the relevance of ownership parity for IJV stability (e.g. Aib et al., 2023; Blodgett, 1991; Hennart and Zeng, 2002). Following, Park and Ungson (1997), Mohr et al. (2016), and Aib et al. (2023), we assigned a dummy measure for the equality the partners' ownership in the IJV.

[2] In this context, the foreign partner refers to either the French-partner alone or the French-partner in partnership with other foreign partners who do not originate from the IJV's host country.

Table 2
Breakdown of French-foreign JVs host countries.

IJV host country	Number of IJVs	Percentage
China	20	13.61
India	18	12.24
Russia	13	8.84
United Kingdom	10	6.80
United Arab Emirates	9	6.12
United States of America	8	5.44
Italy	6	4.08
Kazakhstan	5	3.40
Brazil	4	2.72
Czech Republic	4	2.72
Spain	4	2.72
Algeria	3	2.04
Australia	3	2.04
Germany	3	2.04
Japan	3	2.04
Netherlands	3	2.04
Vietnam	3	2.04
Taiwan	2	1.36
Tunisia	2	1.36
Argentina	1	0.68
Austria	1	0.68
Belarus	1	0.68
Belgium	1	0.68
Canada	1	0.68
Egypt	1	0.68
Greece	1	0.68
Hong Kong	1	0.68
Iran	1	0.68
Iraq	1	0.68
Malta	1	0.68
Morocco	1	0.68
Netherlands (Operation in Balkan countries)	1	0.68
Nigeria	1	0.68
Norway	1	0.68
Poland	1	0.68
Portugal	1	0.68
Singapore	1	0.68
Slovenia	1	0.68
South Korea	1	0.68
Switzerland	1	0.68
Thailand	1	0.68
Turkey	1	0.68
Ukraine	1	0.68
Total	**147**	**100.00**

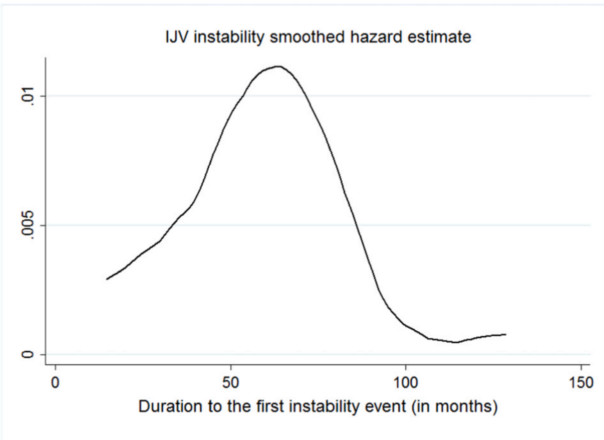

Fig. 2. Smoothed IJV instability hazard over time.

Table 3
Descriptive statistics and correlation matrix.

Variables	Mean	S.D.	Min.	Max.	1	2	3	4	5	6	7	8	9	10
Host country risk	33.999	15.793	3.63	85.47	1.00									
Host country experience	16.485	18.277	0	85	−0.31***	1.00								
Number of partners	2.257	0.555	2	5	0.21*	0.16+	1.00							
Ownership parity	0.257	0.439	0	1	−0.15+	−0.02	−0.30***	1.00						
Business relatedness	0.814	0.390	0	1	0.034	0.09	−0.10	0.03	1.00					
Cross-shareholding	0.171	0.378	0	1	0.22**	0.003	0.23**	−0.05	0.07	1.00				
Small developing country	0.243	0.430	0	1	0.36***	−0.22**	0.27**	−0.14+	−0.12	0.05	1.00			
Large developing country	0.386	0.487	0	1	0.42***	−0.12	−0.11	0.004	0.08	0.15+	−0.45***	1.00		
Primary sector	0.129	0.336	0	1	0.07	0.20*	0.25**	−0.13	0.18*	−0.005	0.13	−0.09	1.00	
Tertiary sector	0.271	0.446	0	1	−0.07	−0.06	−0.12	0.19*	−0.33***	−0.06	−0.01	−0.02	−0.23**	1.00

$N = 140$.
+ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

Table 4
Results of log-logistic regressions.

Variables	Model 1	Model 2	Model 3	Model 4
Host country risk		−0.0174* (0.0088)	−0.0317** (0.0109)	−0.1767*** (0.0209)
Host country risk × Host country experience			0.0009* (0.0004)	
Host country risk × IJV age				0.0410*** (0.0047)
Host country experience	0.0231** (0.0080)	0.0213** (0.0078)	−0.0056 (0.0131)	0.0156** (0.0060)
Number of partners	0.6038** (0.2072)	−0.6252** (0.2061)	−0.6338** (0.2053)	−0.6194*** (0.1532)
Ownership parity (Symmetric)	0.6225* (0.2825)	0.5674* (0.2800)	0.4947+ (0.2747)	0.3037 (0.2104)
Business relatedness	−0.1083 (0.3038)	−0.1022 (0.2946)	−0.0712 (0.2894)	−0.2445 (0.2324)
Cross-shareholding	0.6449* (0.3194)	0.6900* (0.3158)	0.6878* (0.3197)	0.4594+ (0.2362)
Small developing country	0.4340 (0.3026)	0.8475* (0.3701)	0.8236* (0.3715)	0.4160 (0.3008)
Large developing country	0.5195* (0.2652)	0.8872** (0.3202)	0.9075** (0.3238)	0.3491 (0.2679)
Primary sector	−0.0681 (0.3654)	0.0834 (0.3605)	0.1083 (0.3604)	0.1744 (0.2572)
Tertiary sector	0.5643* (0.2701)	−0.5848* (0.2660)	−0.5356* (0.2619)	−0.2094 (0.2031)
Constant	5.5928*** (0.5815)	5.9833*** (0.6089)	6.4645*** (0.6536)	5.8464*** (0.4662)
Log-likelihood	−146.2927	−144.4193	−141.9050	−119.2943
Log-rank Chi-squared	30.49***	34.24***	39.27***	84.49***
Ln gamma	−0.4369*** (0.1080)	−0.4589*** (0.1087)	−0.4789*** (0.1088)	−0.7759*** (0.1076)
Gamma	0.6460 (0.0698)	0.6220 (0.0687)	0.6194 (0.0674)	0.4603 (0.0495)
N	140	140	140	140
Instability events	65	65	65	65

Values reported are coefficients. A positive coefficient implies a positive impact on IJV stability, while a negative coefficient implies a detrimental impact on IJV stability. Values between brackets are standard errors.
$^{+}$ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

Prior researches have also shown that business relatedness affects IJV survival (e.g. Hennart et al., 1998; Lu and Xu, 2006). We also controlled for business relatedness using binary coding. Specifically, we measured business relatedness between IJV structure and IJV parents based on 4-digit SIC codes. We coded 1 for parents related to their IJV business, and 0 in case of overlap in business relatedness between IJV and parents' 4-digit SIC codes. IJVs consisting of at least one parent unrelated to its IJV business were coded as 0. We also controlled for cross-shareholding between IJV, as it has been shown to affect alliance outcomes (Dussauge et al., 2000). Following Dussauge et al. (2000), we measured this variable as a qualitative dichotomous measure, coding 1 for IJVs established by parents who possessed a stake in the capital of the other IJV parents at the time of IJV establishment, and 0 otherwise.

Furthermore, prior research has demonstrated that IJV stability is influenced by host country's level of development (e.g. Chung and Beamish, 2010, 2012; Lee and Beamish, 1995). Using the classification of the World Bank, we measured this by including dummies for being small developing country, large developing country and developed country (the reference level). Finally, we controlled for IJV activity sectors by including a block of dummies for primary, secondary (the reference sector) and tertiary sector.

3.2.3. *Data analysis*

We employ event history analysis to test our hypotheses. Event history analysis enables modelling the relationship between event occurrence and the time it takes for the event to occur, which cannot be achieved with logistic regression. Moreover, it allows incorporating time-varying covariates to assess effects overtime. We conducted a test of proportionality and found that the proportionality assumption is violated. However, we observed that the distribution of the hazard function fits log-logistic curve. Therefore, we opted for log-logistic regression as our parametric event history model.

4. Results

We conducted data analysis by employing STATA/IC 14 software. Table 3 displays the summary statistics and correlations.[3] The correlation coefficients among the independent variables are below the commonly recommended threshold of 0.7, which implies the absence of high collinearity. Furthermore, variation inflation factors are less than the threshold of 3. This indicates that there is no significant multicollinearity issue among the independent variables.

Table 4 presents the outcomes of the regression models, encompassing control variables (Model 1), host country risk (Model 2), the interaction between host country risk and host country experience (Model 3), and the interaction between host country risk and age on IJV stability (Model 4). All regressions included in Table 4 display a significant predictive power ($p < 0.001$).

The findings in Model 2 demonstrate that host country risk has a significant negative impact on IJV stability ($\beta = -0.0174$, $p < 0.05$), which leads to support hypothesis 1. The results in Model 3 show that the interaction term between IJV's host country risk and the degree of possessed experience in the IJV's host country has a significant positive impact on IJV stability ($\beta = 0.0009$, $p < 0.05$).

[3] Age of the IJV is highly correlated with the continuous dependent variable, which is the duration from the establishment of the IJV to the date of instability event or cut-off ($r = 0.6193$, $p = 0.000$). This implies that IJV's age may introduce bias to the results of our independent variables. Except the duration to partial ownership change, the duration from IJV establishment to termination or the date of cut-off is equal to the age of IJV. We only consider IJV's age in the model that tests the moderating impact of IJV's age on the negative association between host country risk and IJV stability.

Thus, hypothesis 2 is supported. The results in Model 4 support hypothesis 3, as they demonstrate that the age of the IJV significantly moderates the detrimental impact of host country risk on IJV stability ($\beta = 0.010$, $p < 0.001$).

The findings of Model 1 display that some of the controls affect IJV stability. Specifically, they show that the likelihood of IJV instability decreases with higher host country experience ($\beta = 0.0231$, $p < 0.01$). An elevated number of partners is shown that it has a significantly negative impact on IJV stability ($\beta = -0.6238$, $p < 0.01$). Additionally, they show that IJVs established with symmetric ownership partition, as compared to IJVs established with asymmetric ownership partition, are more likely to remain stable ($\beta = 0.6225$, $p < 0.05$), while cross-shareholding between IJV parents has a marginally positive impact on IJV stability ($\beta = 0.6449$, $p < 0.05$). Further, the findings show that IJVs established in large developing countries, as compared to those in small developing countries and developed countries, are more likely to remain stable ($\beta = 0.6101$, $p = 0.05$). Finally, the findings of sector controls reveal that IJVs in tertiary sector, as compared to IJVs in primary or secondary sectors, are less likely to remain stable ($e^{\beta} = -0.5643$, $p < 0.05$).

To ensure robustness of our study's findings, we conducted a series of Schoenfeld tests of proportionality assumptions. The results revealed a violation of the hazard proportionality assumption, indicating that the use of a parametric event history model was more appropriate. Furthermore, the log-logistic regression model demonstrated the lowest Akike information criterion (AIC) compared to other parametric event history models, thus confirming its suitability for our study. Although log-logistic regression yielded robust findings, we also conducted additional analyses using Cox regression models. The results of these latter showed consistent findings.[4]

We also accounted for the concern of endogeneity related to self-selection bias. As IJV is an entry mode that follows a strategic logic, firms may choose IJV over other entry modes when host country risk is high to take advantage of risk-sharing benefits (e.g. Chan and Makino, 2007; Demirbag et al., 2007; Demirbag et al., 2010; Yiu and Makino, 2002). Risk-sharing advantage in IJV may lead to IJV success and stability. To test for endogeneity in IJV selection, we included pending and cancelled IJVs, acquisitions, and non-equity alliances from our initial sample list, resulting in 190 observations related to entry mode choice. We used logistic regression to examine the impact of host country risk on entry mode choice and found no significant relationship between the two variables.[5]

5. Discussion and conclusion

5.1. Implications for research

Our study is motivated by the important impact of host country risk on the stability of international investments, specifically IJVs. Furthermore, it comes to provide refined findings that address the inconclusive findings in the literature. Moreover, it is motivated by the scarcity of studies that address the instability of IJVs caused by host country risk, and by the appeals to examine how country risk affects the level of additional capital investments by parents into subsidiaries on an ongoing basis (e.g. Feinberg and Gupta, 2009) in general, and to examine partner-specific and IJV-specific effects (Meschi and Riccio, 2008), in particular. Anchored on TCE, our study elucidates the negative impact of host country risk on IJV stability. In addition, this research takes the initiative to integrate TCE and KBT in postulating how the experience in the IJV's host country and the age of the IJV moderate the negative impact of host country risk on IJV stability.

In our first hypothesis, we propose that host country risk exerts a detrimental impact on IJV stability. Grounded in TCE, we argue that IJVs face both internal and external uncertainties that lead to increased opportunism and transaction costs in the presence of risky external political, economic, and legal environments. As expected, our findings confirm this hypothesis. By taking into consideration the different instability facets related to equity (partial and whole acquisition of IJV's ownership, liquidation, and sale to an exterior party), our research, to the best our knowledge, is pioneering in arguing and providing evidence for the detrimental impact of host country risk on IJV stability.

Our findings empirically are consistent with those of Meschi (2005), who argued that IJVs are less likely to survive in politically uncertain environments. However, they are inconsistent with the findings of Lu and Hébert (2005) and Meschi and Riccio (2008), who did not find a significant relationship between country risk and IJV survival. One possible explanation for the inconsistent findings is that we focus on IJV stability, which includes both the stability of ownership structure and survival, rather than solely on IJV survival. Another possible explanation is that we focus on unplanned instability events, whereas Lu and Hébert (2005) and Meschi and Riccio (2008) did not specify their analyses on a particular type of termination event. A third possible explanation is that we focus on multi-country levels, rather than on a single country (e.g. Meschi and Riccio, 2008), or a specific level of countries (e.g. Lu and Hébert, 2005; Meschi, 2005).

Our findings complement the results of Nielsen (2007), who found that country risk exerts a negative impact on alliance financial performance, and those of Luo (2007), who argued that IJV partners tend to exhibit more opportunistic behavior when operating in an environment where information is unverifiable and law is unenforceable.

In the second hypothesis, we propose that experience possessed in IJV's host country moderates the detrimental impact of host country risk on IJV stability. By integrating TCE with KBT, we argue that host country experience allows cross-border enterprises to gain knowledge about conducting business in the host country, which helps them overcome the initial liability of foreignness and create strategic flexibility. Furthermore, IJV partners with high possession of experience in the host country would possess the

[4] The results of Cox regression model are available upon request.

[5] Host country risk does not follow a normal distribution. Therefore, we used logistic regression. The idea was to use Heckman's (1979) two-step method. Using probit regression and Heckman's (1979) method two-step produced similar results.

necessary skills to navigate institutional idiosyncrasies (Henisz, 2003) and deal effectively with political actors and economic signals (Iriyama and Madhavan, 2014), thereby reducing IJV transaction costs. This knowledge enables IJV partners to adopt proactive measures that protect the IJV from poor performance. The results of our analysis support our arguments.

This finding builds on those of Delios and Beamish (2001), who found that IJVs are less likely to exit from countries where their foreign partners had been operating for an extended period, and Mohr et al. (2016), who found that IJVs established by MNEs that possess high experience in the host country are less likely to dissolve. While these studies emphasize the positive impact of the degree of experience in the host country on IJV stability, we argue that this type of experience has the strength to moderate the threat of host country risk, by reducing both internal and external uncertainty.

In our third hypothesis, we postulate that the age of the IJV moderates the detrimental impact of host country risk on IJV stability. We base this argument on the suggestion that gradually develop the ability to navigate risky environments over time. As IJV partners accumulate knowledge and experience, they are able to deal with internal and external uncertainties, thereby reducing transaction costs and becoming more attached to their IJV structure. Our findings confirm our expectations and extend prior studies that highlight the role of IJV's age in ameliorating IJV performance (e.g. Lin and Germain, 1998; Park et al., 2015). Park et al. (2015) claimed that older IJVs are more likely to acquire tacit knowledge than younger IJVs. They also argued that with older IJVs, the acquired knowledge positively influences IJV performance. Our findings also complement those of Lin and Germain (1998), which highlighted the positive role of IJV's age in resolving problems and achieving IJV partners satisfaction.

Our findings pertaining the moderating impact of both the degree of experience possession in the IJV's host country and the age of the IJV on the negative association between host country risk and IJV stability complement literature of how country risk can be overcome (e.g. Feinberg and Gupta, 2009). MNEs operate in external environments that are beyond their direct control. Hence, they should contend with varying levels of risk in host countries. The degree of possessed experience in the IJV's host country and the age of the IJV enable the accumulation of knowledge that IJVs can mobilize to manage both internal as well as external uncertainty.

5.2. Contributions

Our study has expanded upon TCE and KBT by offering new theoretical insights and empirical evidence regarding the relationships among host country conditions, adaptation costs, opportunism, and IJV stability. We have shown how higher levels of country risk influence adaptation costs and opportunistic behaviors, thereby impacting IJV stability. This contributes to the theoretical framework proposed by Hennart and Verbeke (2022) and Williamson (1996), enhancing our understanding of governance decisions in the context of firms navigating diverse external environments. Furthermore, our integration of TCE and KBT has revealed the moderating roles of IJV experience and age in shaping the relationship between host country risk and IJV stability, highlighting nuanced dynamics crucial for strategic decision-making in international business.

Our research also contributes to the literature by refining methods and presenting results that address past issues that may have led to inconclusive findings. Previous studies have highlighted the importance of separating planned and unplanned instability events (e.g. Aib et al., 2023; Makino et al., 2007; Polidoro et al., 2011). This research is pioneering in its exclusive focus on unplanned instability events in investigating the impact of host country risk on IJV stability and the moderating impact of country experience and IJV age on that relationship. This consideration implies that instability events serve as indicators of poor IJV performance and the necessity for structural adjustments (Chung and Beamish, 2010; Donaldson, 1987; Donaldson, 2001), rather than signifying achievement of IJV objectives or planned structural changes.

Finally, our research contributes to the current knowledge on IJV stability literature by examining multi-country dataset (e.g. Hui et al., 2020), characterized by its newness. Therefore, our findings are effectively generalizable. In contrast to previous studies that were constrained to one country (e.g. Luo, 2007; Meschi and Riccio, 2008) or a specific subset of countries (e.g. Lu and Hébert, 2005; Meschi, 2005), we provide a wider lens, facilitating a more thorough investigation into how host country risk impacts IJV stability across a spectrum of developed and developing nations.

5.3. Managerial implications

Our study has practical implications for both practitioners and institutional policymakers. While practitioners should be cognizant of the detrimental impact of the IJV's host country risk, institutional policymakers should also be mindful of it since it destabilizes their IJVs in the host country. While an IJV can be a resilient structure to host country risk, practitioners should assess host country risk in terms of economic, financial, political, and legal environments before entering into an IJV. Practitioners should also recognize the positive impacts of having high host country experience and older age in their IJVs' lifespan. They should prioritize partners with extensive experience operating in the host country. This experience can provide valuable insights into navigating the local business environment and mitigating potential country risks. Additionally, practitioners may reduce the likelihood of IJV instability in risky countries by leveraging their experiential knowledge acquired over time. Businesses should be prepared for a long-term commitment and invest in building trust and developing clear and effective conflict resolution mechanisms within the IJV agreement to address potential disagreements.

Policymakers should focus on policies that create a stable and predictable investment climate to attract foreign businesses and encourage IJVs. This could involve measures to improve infrastructure, reduce political instability, and streamline regulations. Institutional policymakers should also consider offering incentives for IJVs that involve a foreign partner with experience in the country. This could include tax breaks, streamlined approval processes, or grants for knowledge-sharing programs. Additionally, policymakers should develop resources that provide firms with transparent and easily accessible information about the country's economic and political situation, regulations, and legal frameworks. This knowledge transfer can equip younger IJVs with the tools to navigate challenges in the host country.

5.4. Research limitations and future research avenues

Despite the various contributions of this research, there are limitations that must be addressed when interpreting the study. Firstly, while we used TCE to explain the relationship between host country risk and IJV stability, we did not provide an explanation for the exact motives behind IJV instability events. IJVs may experience unplanned ownership changes or termination due to various motives, such as conflict (Barden et al., 2005) and poor IJV performance (Chung and Beamish, 2010). We therefore suggest that future research integrate such motives to provide a better understanding of the relationship between host country risk and IJV stability. Secondly, our measurement of host country risk was based on a multi-faceted concept. While we consider the overall score of country risk, it would be valuable to distinguish between political and economic risk. Thirdly, while the Factiva database provided access to a vast collection of global news sources, our study recognizes limitations associated with solely relying on this database. While Factiva offers a comprehensive archive of global news sources, excluding resources such as SDC Platinum and LexisNexis could restrict the sample size of identifiable French-foreign JVs within our analysis. Furthermore, the focus of Factiva on prominent MNEs might skew the data towards these larger entities, potentially neglecting the activity of smaller or emerging IJVs. To mitigate these limitations, future research could benefit from a multi-pronged approach to data acquisition. This might involve incorporating complementary databases alongside Factiva to capture a broader range of IJVs. Finally, our dataset, comprising of 140 French IJV established outside of France from 2009 to 2010, can be considered as relatively old. While we overcome this limitation by updating the evolution of our dataset to 2022, newly established IJVs would be beneficial to convoy the world's changing environment. Despite these limitations, we are confident that our study provides reliable findings and fills important gaps in the IJV stability literature.

CRediT authorship contribution statement

Hamza Aib: Writing – review & editing, Writing – original draft, Visualization, Validation, Supervision, Software, Resources, Project administration, Methodology, Investigation, Formal analysis, Data curation, Conceptualization.

Data availability

Data will be made available on request.

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Corrigendum

Corrigendum to “Stability of international joint ventures: When experience and age overshadow host country risk” [J. Int. Manag. 30 (2024)/101205]

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The author regrets an error regarding Table 2. The correct version of Table 2, which provides a breakdown of the French-foreign JVs’ host countries, is as follows:

The author would like to apologise for any inconvenience caused.

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Table 2
Breakdown of French-foreign JVs host countries.

IJV host country	Number of IJVs	Percentage
China	20	14.29
India	18	12.86
Russia	12	8.57
United Kingdom	10	7.14
United Arab Emirates	7	5.00
United States of America	7	5.00
Italy	6	4.29
Brazil	4	2.86
Czech Republic	4	2.86
Spain	4	2.86
Algeria	3	2.14
Australia	3	2.14
Japan	3	2.14
Kazakhstan	3	2.14
Netherlands	3	2.14
Vietnam	3	2.14
Germany	2	1.43
Taiwan	2	1.43
Tunisia	2	1.43
Other countries	24	17.14
Total	**140**	**100.00**