An Empirical Investigation of Business Reinvestment and its Effectiveness in International Joint Ventures: Growth, Competence, and Market Competitiveness

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This study empirically examines reinvestment and its effectiveness using Chinese international joint ventures (IJVs) as the unit of analysis. We evaluate business reinvestment on the bases of cost effectiveness and long-term development and investigate the impact of reinvestment effectiveness on the growth, management competence, and market competitiveness of IJVs. Using the literatures of strategic management and financial economics as the conceptual groundwork, six hypotheses are developed. It is proposed that the pursuit of corporate development and reinvestment will have a positive influence on the performance of IJVs. The findings suggest that business reinvestment mainly depends upon the role that the management of an IJV is allowed to play in the effective deployment of management competence and market competitiveness.

Keywords: Business Reinvestment, International Joint Ventures, Organizational Growth, Management Competence, and Market Competitiveness.

INTRODUCTION

Business reinvestment refers to the enhancement of corporate development portfolios through the capital and non-capital resource commitments of a firm to cater to the potential market demands. Financial economists assert that business reinvestment can have major long-term implications for the corporate development of a firm in the anticipation of an expected return that must exceed the cost of making its current resource commitments (Carlson, Lawrence, & Wort, 1974; Heaton, 2000). Business reinvestment is related to whether a firm will expand, maintain, or contract its business for future development (McCarthy, Schoorman, & Cooper, 1993).

Strategic management emphasizes that business reinvestment needs to be adapted to capture the differences that relate to information requirements, utilization of technologies, and senior management roles (Cull & Xu, 2005). In addition, reinvestment decisions have been primarily based upon the organizational capabilities to anticipate the expropriation risks of corporate development (Kogut & Zander, 1993; Spanos, Zaralis, & Lioukas, 2004). The psychological influence in particular helps to provide a better explanation of business reinvestment over and beyond what managers can predict based upon financial feedback (McCarthy et al., 1993; Maritan, 2001).

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Central to corporate development in the context of an international joint venture (IJV) is the determination of business investment that permits the venture to garner organizational growth. Financial economists state that an IJV may choose to reinvest a higher share of its profits when it perceives its property rights to be more secured in performance (Lane, Salk, & Lyles, 2001; Cull & Xu, 2005). They argue that a firm with superior growth can provide insights into how the firm uses its reinvestments as a mechanism for developing operating-level organizational capabilities. Robson and Katsikeas (2004) state that an IJV tends to use business reinvestment for new product and service development. Tosi, Brownlee, Silva, and Katz (2003) state that development preferences that are exhibited by IJVs often differ because of differences in motivation and the degree of control that is exerted over the managers in the organizations. Studies of market competitiveness include those in which the adaptation of a firm's products to new market conditions is considered. Over the last thirty years, studies of business reinvestment have considered structural determinants (Si & Bruton, 2005), subsidiary mandates and initiatives (Roth & Morrison, 1992), organizational capabilities (Helfat & Peteraf, 2003), and quality of supplies and services (Rogers, Miller, & William, 1999).

Researchers have long been interested in how the business reinvestment of a firm affects firm performance, but prior studies have neither explored in detail nor empirically tested business reinvestment and its effect on corporate development (Bowman & Hurry, 1993; Lane & Beamish, 1990). Few management studies have focused on the analysis of how business reinvestment is exercised within an IJV setting, and few studies have empirically investigated the way in which the underlying validated constructs of business reinvestment are grounded in the context of a complex decision process (Noble, Sinha, & Kumar, 2002; Lu & Beamish, 2006).

The Chinese IJV hotel service industry is utilized as the analytical setting for our investigation. Examining business reinvestment and its effectiveness in IJVs provides a direct look at the organizational growth, management competence, and market competitiveness for future development. The assessment of its business reinvestment allows an IJV to verify the extent to which its management can effectively implement its ongoing corporate development.

THEORETICAL DEVELOPMENT AND HYPOTHESES

Financial economists state that business reinvestment is primarily made in the areas in which a firm has the greatest ability to confer preferential access to its existing resources before arriving at reinvestment decisions for its corporate development (McCarthy et al., 1993; Steensma & Lyles, 2000). The reinvestment options of a firm serve not only as future claims but also as contractual safeguards as they exercise strategic implications for the firm to effectively manage its business. Robson and Katsikeas (2004) assert that the process of making reinvestment decisions is generally influenced by two forces: the force that provides an impetus for a firm to invest and the force that identifies how the scope of a firm's reinvestment process is constrained by the need for acceptance and ex ante approval of investments. In addition, business reinvestment is often made to achieve organizational growth, which is primarily constrained by the general cash capital of a firm that is available after pursuing profit repatriation and long-term business success (Spanos et al., 2004). The purpose of this study is to demonstrate that business reinvestment is significantly related to the quantitative and qualitative changes in a firm's capability stocks for growth, competence, and market competitiveness, which in turn positively influence performance.

Figure 1. Performance of Business Reinvestment

Business reinvestment is perceived to be a domain of increasing importance in corporate development. Numerous scholars state that business reinvestment is portrayed as a basically decentralized, multistage, bottom-up, sociopolitical process for a firm to invest outside of its core business given environment uncertainty, managerial discretion over strategy formation, and learning opportunities (Maritan, 2001; Spanos et al., 2004). Recently, scholars argue that employing a cost-effective strategy may allow a firm to capture its true financial value by expanding into low-cost development areas in which market conditions may prove to be unexpectedly favorable. Transaction cost economics (TCE) depends on whether a firm successfully undertakes business reinvestment that makes the right trade-off between immediate and future development (Heaton, 2000). Studies of cost-effective strategies are based upon the potential increase in the value of a firm's total assets that will lead the firm to effectively restructure its resource commitments (Si & Bruton, 2005). For instance, a firm is likely to strictly control its resource commitment if the expected increase in the value of its total investments is greater than the perceived risk that is closely associated with any of its corporate developments. The most important mechanism for maintaining the capability stock of a firm is to create further growth opportunities as this can enable the firm to effectively respond to external environmental changes. In this regard, a firm can build new capability platforms through obtaining critical resources from suppliers, customers, and competitors. Hewett & Bearden (2001) suggest that the level of independence that a firm has to manage its business reinvestment is an important and contentious issue, because the appropriateness of the firm's reinvestments is heavily dependent upon how the relevant investing parties believe the cost effectiveness can best be satisfied.

To justify the pursuit of cost effectiveness in an IJV, the total economic value that is fully realized from the resource investments of the parent firms that are made available to the venture must be greater than the cost of running the subsidiary. A major feature of an IJV's business reinvestment is that one parent firm may try to gain preferential treatment at the expense of the others. The management of an IJV is often associated with the value of the business reinvestment rights and the optimal policy for exercising its reinvestment rights. Hence, a direct way to align different business reinvestment interests is for a firm to monitor all of its costs in the hope of avoiding the traditional free-rider problem (Eisenhardt, 1985). However, organizational imperfections that often lead to information gate-keeping activities mean that parent firms may not be well informed about an IJV's reinvestment options. For instance, an IJV management, as the provider of such information, has the ability to manipulate the situation to ensure substantial residual rights of control and sufficient management discretion in the reinvestment process. The management of an IJV must "make sense" of its business reinvestment before it can identify potential courses of action (McCarthy et al., 1993), and the protection of parental business reinvestment rights is mainly dependent upon the commitment of the IJV management to its parent firms. An IJV that continuously makes appropriate business reinvestments may develop a greater market base if the resource commitments can lead to the achievement of greater cost effectiveness (Bowman & Hurry, 1993). In this regard, Si and Bruton (2005, p. 1467) state that an IJV can be established with lower operational costs due to lower labor costs while gaining the benefit of having a local partner that limits the costs that are associated with the difficulties in communication, coordination, and control across international borders. Hence, business reinvestment can provide value to an IJV by increasing its cost efficiency, particularly if the venture has improved its products and services in a manner that leads to lower costs and greater competitive advantages (King & Zeithaml, 2001). This leads to our first hypothesis.

Hypothesis 1: The pursuit of cost effectiveness will positively influence a firm’s performance.

Business reinvestment enables a firm to take a longer term view towards its capability stock, and the ability that a firm has to make reinvestments is often congruent with its potential corporate development. The resource-based view incorporates the evolution over time of a firm’s capability stock that forms the basis of its competitive advantage, and the capability lifecycle helps to make the resource-based theory dynamic by providing a framework for understanding the evolution of capabilities over time (Helfat & Peteraf, 2003). In this regard, a large number of studies of organizational capabilities have sought to understand why business reinvestment is considered to be critical to the sustenance of long-term business success (McCarthy et al., 1993). The recognition of a firm’s reinvestment and the pressures of long-term development are the primary management issues that face an organization (Tosi et al., 2003). The resource-based view addresses the importance of capability development and managerial incentives to achieve the necessary organizational level of control given that a firm’s business reinvestment can influence the constitution of its corporate development (Hewett & Bearden, 2001).

Corporate development can be the most important issue when a firm has a choice between multiple development opportunities and must decide on a course of action that is conducive to its long-term interests. In particular, the hybrid nature of an IJV can give rise to complex power structures in which parent firms are heavily involved in the investments of their subsidiaries. An IJV usually needs to obtain approval for business reinvestment from its parent firms before allocating capital funds for its corporate developments. In this respect, Heaton (2000) indicates that parent firms must audit business reinvestments if they wish to ensure that the investments of an IJV are not expropriated or wasted on unsuitable projects. For instance, an IJV requires that the design and updating of business contracts take into account and protect the residual rights of the control of the parent firm over its subsidiaries and ensure that the parent firm is able to make contingency decisions in circumstances that cannot be fully foreseen in the original contracts (McCarthy et al., 1993). Hence, business reinvestment is primarily controlled through mechanisms such as equity contracts, which ensure that the management of an IJV is compelled to act in the interests of the parent firms.

Studies of the business reinvestment of IJVs need to pay attention to the conflicts of interest that emerge from differences in the level of resource commitment that parent firms make to the joint business. As residual claimants, parent firms are rewarded for resource investment in their subsidiaries only after the claims of all of the parent firms have been fully satisfied. The returns on a firm's reinvestment can contribute to its long-term development, and an examination of business reinvestment should be able to identify whether the potential value of the firm's total assets has been entirely increased. Previous studies suggest that the establishment of the strategic presence of a firm in a foreign market may allow the firm to apply critical assets that include not only the specific skills that are necessary to identify, screen, and monitor existing investments, but also involve the ability to make a differential contribution through the process of business reinvestment (Yan, 2005). It is predicted that strengthening the business reinvestment of a firm is important in securing the firm's long-term viability. There is an inherent difference in interests and competition between parent firms when they play an active role in setting the strategic direction of the business reinvestment of IJVs. Thus, for practical purposes, the management of an IJV must have substantial rights of its own that in principle can dramatically affect its long-term development (Eisenhardt, 1985). This leads to our second hypothesis.

Hypothesis 2: The pursuit of long-term development will positively influence a firm's performance.

Business reinvestment can alter organizational growth in various ways. A firm may make reinvestments to minimize its financial risks and provide a high level of growth through attaining long-term development. Indeed, the achievement of organizational growth is perceived as a fundamental driver of forward-looking business development at the microeconomic level. Financial economists state that if growth opportunities are finite, then the strategy to invest a firm's resources may change the growth options of its existing resource base (Keef & Roush, 2001). This seems to hold promise for an a priori prediction of how a firm's business reinvestment may influence organizational growth (Eisenhardt, 1985), as reinvestments are regarded as a strategically important way to safeguard a firm's original resource commitments. Especially, reinvestment activities are largely contingent upon the adaptation of a firm's asset specificities to gain access to new resources at lower costs, increase its sales of goods or services, develop a sound business reputation, and integrate operations into new markets (Luo & Ho, 2001). Some scholars emphasize that an important factor in business reinvestment that accompanies organizational growth is the fit between a firm's strategy formation and its resource commitment (Rogers et al., 1999). Other scholars suggest that an understanding of the rationale behind the achievement of growth can lead to a good explanation of the link between a firm's reinvestments and its corporate development (Egelhoff, 1988).

Many researchers emphasize that business reinvestment largely depends on the willingness of the management of an IJV to follow the directives, policies, and rules of its parent firms (Yan & Child, 2004). There are, however, particular challenges in ensuring that superior performance is achieved by Chinese IJVs, which are mainly located in sectors in which state ownership and regional control remain strong. In many sectors, a government ministry, state holding company, or local government authority controls, or at least, heavily influences, access to the domestic market. Therefore, a stream of research in business reinvestment should concentrate on the level of growth for macro market-related matters. It has been found that many foreign firms are concerned about the business reinvestments that they make (Noble et al., 2002), and external market factors, such as competition and logistical supplies, are seen to be significant factors that affect the organizational growth of foreign firms in China.

IJV business reinvestment implies that the IJV has the ability to explore a significant number of development possibilities. One of the key factors in deciding whether a new opportunity should be added to an IJV's existing list of reinvestments is its potential to endanger organizational growth. Making the right reinvestments is a challenge for the IJV in situations in which only one parent firm can provide sophisticated know-how, systems, and training (Dunning & Kundu, 1995). For instance, the business experience and technological advantages that are enjoyed by most IJVs in China are likely to rest on better quality cooperation with the foreign partner (Yan & Child, 2004). The actual achievement of organizational growth needs to be managed in a way that combines the development priorities of the parent firms. Thus, business reinvestment affects organizational growth, but the actual growth has different effects on the interests of the parent firms, particularly as the parent firms in an IJV consortium are likely to come from very different investment traditions. Although reinvestment by an IJV is one of principal means of engendering organizational growth (Reur & Tong, 2005), improving the quality of cooperation between parent firms may require IJV managers to take direct responsibility for the operations of the IJV. This leads to our third hypothesis.

Hypothesis 3: Business reinvestment to attain organizational growth will positively influence a firm's performance.

Corporate investment behavior suggests that the management competence of a firm can be verified through the identification of its control mechanism (Tosi et al., 2003). Human factors are involved in the business investments of a firm for past venture experience, subjective evaluations, and foresights (Maritan, 2001; Roth & Morrison, 1992). Scholars state that the resource-based view can be extended not only to the assets of a firm but also to its organizational capabilities to perform a coordinated set of tasks, utilizing organizational resources for the purpose of achieving a particular end result (Helfat & Peteraf, 2003, p. 999). Recent studies show that superior management expertise, investment ability, and marketing knowledge can contribute to the efficiency of the firm's corporate development (Grewal & Tansuhaj, 2001). These studies assert that the processes by which a firm's management responds to strategic challenges include feedback and learning activities that lead to the enhancement of the firm's management competence (Roth & Morrison, 1992). With regard to enhancing learning abilities, a firm may need to make business reinvestments that enable the firm to receive accurate and up-to-date market information and technologies. Management competence is required for the long-term creation and maintenance of the wealth of an organization. In other words, a firm's management is likely to give priority to the maintenance of a consistent product quality and technical standards, and thus the enhancement of the firm's management competence is crucial to maintaining the technical standards, employee skills, and human resource management.

The business reinvestment of an IJV greatly influences its future business development through the inward transfer of advanced technology and managerial expertise (Lyles & Baird, 1994). For instance, a strategy to invest non-capital resources can be made specifically by the appointment of appropriate expatriate managers and other expatriate personnel, who will provide pivotal assistance in the subsequent transfer and local distribution of technologies. Such investments are most successfully implemented when there is a strategic alignment of the IJV management with the management of its parent firms (Sutton, 1996). There is consensus among foreign partners that the main method by which the business reinvestment of an IJV can be controlled is through the occupation of key management posts in the IJV (Vanhonacker, 1997), and thus the IJV controlling partner is likely to exercise the greatest influence over such strategies. The high cost of expatriate managers in a country such as China places an obvious constraint upon the importation of international service standards, superior technology, and advanced management (Vanhonacker, 1997), and this has crucial implications in the areas of management competence that foreign firms deem particularly important for the development of their IJVs. Luo and Ho (2001) analyze the management effectiveness that stems from the relative strength of maintaining standardized global products versus fostering responsiveness to local conditions, and conclude that IJVs that bring globally standardized and branded products to China attach great importance to having expatriates in key management positions. Whether the management of an IJV is allowed to make its own managerial appointments depends on whether the existing managers have developed the competence to maintain their own procedures and standards in specific sectors such as marketing. In these circumstances, it is expected that there will be a significant reliance on the parent firms to provide IJV managers who can ensure both access to the technological resources of the parent firms and the support of the governmental authorities. This leads to our fourth hypothesis.

Hypothesis 4: Business reinvestment to enhance management competence will positively influence a firm's performance.

The achievement of a firm's market competitiveness can be affected by the developmental opportunities that are generated by the external market environment. A firm needs to position itself to gain a sustained competitive advantage if it owns relatively easily inimitable resources, and a high level of the market competitiveness of a firm is more likely if the firm reinvests in new products or services. The driving force of business reinvestment is the desire to achieve a high level of market competitiveness that will enable a firm to adapt to new market conditions by securing improvements in its innovations, products, and services. For this reason, a reinvestment decision is often predicated by the need to respond to customer needs through the improvement of existing services and product development. Business reinvestment can create market competitiveness by increasing the adaptability of a firm's services to new market conditions. In this sense, reinvestment decisions are usually determined by the service development, outsourcing, and resource capacity that a firm possesses to safeguard its capability stock. Additionally, an increase in a firm's services and supplies can generate an operational means of leverage through long-term business obligations, which means that links between the strategic developments of the firm for resource investments and its expected high rates of returns on business reinvestments can be appropriately established.

Market competitiveness in service industries is substantiated by the promotion of brand image, customer loyalty, and business reputation (Noble et al., 2002). The preferences of customers, market channels, and distributors; the pricing of services; quality assurance; and the longevity of business relationships are the main influences on business reinvestment for firms in these industries. For instance, the business reinvestment of IJVs can facilitate higher levels of advanced technology and services, and can enable the control of both internal and external knowledge, resources, and capabilities (Luo & Ho, 2001). In any IJV, the establishment of market competitiveness requires business reinvestment that builds a sufficient level of management competence to allow the venture to systematize, promote, and distribute its products and services.

More importantly, business reinvestment can reinforce the right of an IJV to enhance its market competitiveness. This leads to our fifth hypothesis.

Hypothesis 5: Business reinvestment to attain market competitiveness will positively influence a firm's performance.

Business reinvestment that is undertaken mainly by the management of an IJV is constrained by considerations of its effectiveness regarding growth, competence, and market competitiveness. The opportunity to make reinvestment decisions can be realized only when managers acknowledge the implication of such investments. Hence, reinvestment decisions should be undertaken whenever the management of an IJV attempts to update its marketing services, trade off the costs of staying ahead of the competition, or benefit from providing an improved service to the local market. One of the justifications for allowing the management of an IJV to make reinvestment decisions is that in a developing country, such as China, an IJV is the best organizational vehicle through which to deploy the technologies and managerial expertise of the parent firms in a way that serves to effectively develop the local market (Hess, Liang, & McAllister, 2001). The business reinvestments of an IJV are associated with government involvement, such as policies that assign a high priority to channelling foreign investments inward for technology transfer and the introduction of management expertise. Consequently, there is an expectation that active involvement in business reinvestment of an IJV will significantly affect its performance. This leads to our sixth hypothesis.

Hypothesis 6: Business reinvestment will enhance the growth, competence, and market competitiveness of a firm, which will conjointly influence a firm's performance.

METHOD

Sample

The primary objective of this study is to examine business reinvestment and its effectiveness in influencing the performance of IJVs in the service industry in China. This study specifically examines the way in which business reinvestment in the IJV hotel sector is significantly influenced by unique environmental conditions, new market opportunities, and the need to continuously upgrade to the latest international service standards (Dunning & Kundu, 1995). IJV hotel service operations in China are normally multi-million dollar businesses that are run jointly by local and foreign operators. The high capital spending in the hotel industry is a result of the competitiveness of IJV hotels. The nature of the business reinvestment of IJV hotels includes replacement expenditure on service facilities and skill-related investments. At the time of this study, the hotel service industry was regarded as one of the main areas for foreign investment in China regarding output value. The fundamental reason for choosing the IJV hotel industry is that firms in this industry share many characteristics regarding growth, management competence, and service standards (Sutton, 1996). Most firms in the hotel industry are confronted with rapid changes in the market environment, which presents a major challenge when choosing the best business reinvestments. The key factors for the achievement of market competitiveness for

Chinese IJVs are associated with complex service processes, resource richness, and management complexities. Managers in the service sector are faced with making decisions according to certain reinvestment criteria, including the provision of a wide range of amenities, competition on the basis of service quality, offering the most competitive prices, and superior promotions.

The data were collected by interviews with managers of IJV hotels. The National Tourist Bureau of China provided the researchers access to these businesses. All of the China IJV hotels in this study were located in Beijing, Shanghai, or Guangdong province. Of all of the businesses that were contacted, the final sample represents a positive response rate of approximately 20%. The completed sample was limited to 136 IJVs by the constraints of funding, time, and the location of the research team. The research team conducted the interviews with the managers using a closed-ended checklist. We asked for responses from two or more managers from each establishment to obtain answers from the perspective of the IJV management as a whole. The solicitation of answers from managers also served to crosscheck the rankings that were given for the achievements of each firm, including the proxies for achievement that we used, namely, organizational growth, management competence, and market competitiveness. There was a high degree of consistency in the responses, and the method of obtaining answers from managers helped to avoid the threat of common method variance that is associated with using a single rater source. A total of 335 face-to-face interviews were conducted in either English or Mandarin, depending upon the nationality of the interviewee. Of these interviews, 240 were conducted with functional managers and 95 with general and deputy general managers. The depth of the checklist and the high quality of the information that was elicited provided a sound basis for the analysis and allowed useful conclusions to be drawn. The research project team undertook on-site visits to all of the businesses that were studied. Records were consulted to obtain financial information where permission was granted, and background company documentation was also collected.

The study was initiated with three pilot studies that invited senior managers to discuss the factors that affect reinvestment and its effectiveness in IJVs. Based the pilot studies, we devised a checklist in both English and Chinese that used the business as the unit of analysis. The checklist was verified by a process of translation and back-translation to ensure the conceptual equivalence of the alternative renditions. We discussed the checklist with our project members and certain hotel managers to confirm the clarity of the instructions and scale items. The validity of each question in the checklist was assessed against suggestions from the managers, together with comments from the research team. We used a structured questionnaire to collect data from each firm. Guided by field interviews and consultations with experts, we thoroughly reviewed the relevant strategic management literature on reinvestment decisions to ensure that the measures in our questionnaire captured the appropriate constructs. The IJV businesses that were sampled appear to be compatible with the norms that are identified in the literature of financial economics, the parameters of which include corporate developments to ensure cost effectiveness or long-term development (Spanos et al., 2004), organizational growth (Rogers et al., 1999), management competence (Hess et al., 2001), and market competitiveness (Dunning & Kundu, 1995).

Measurement of the Variables

This study explores the theory behind the business reinvestment of IJV hotels. To elicit information on corporate development, the most senior managers of each IJV were asked to scale the activities that their businesses had undertaken in the pursuit of business reinvestment that allowed them either to provide better service quality for long-term development or compete in cost effectiveness (Spanos et al., 2004). A subscale of corporate development was constructed by the aggregation of the scores for these two items into an internal consistency indicator with a listed alpha of .772.

Four items were used to measure organizational growth (Rogers et al., 1999): increase in service activity, increase in innovational activity, improvement in the quality of cooperation with local firms, and improvement in the quality of cooperation with foreign firms. A subscale of organizational growth was constructed by the aggregation of the scores for these four items into an internal consistency indicator with a listed alpha of 0.782.

Three items were used to measure management competence (Grewal & Tansuhaj, 2001): improvement in management skills, enhancement of reinvestment ability, and enhancement of marketing knowledge. A subscale of management competency was constructed by the aggregation of the scores for the three items into a group with a listed alpha of 0.752.

Four items were used to measure market competitiveness (Dunning & Kundu, 1995; Luo & Ho, 2001; Yan, 2005): adaptation of services to the local market, ability to adapt to new market conditions, quality of supplies, and quality of services provided. A subscale of market competitiveness was constructed by aggregating the scores for the four items into a group with a listed alpha of 0.753.

The size of the firm was measured by assessing the number of full-time employees. The business duration of each IJV was measured by the number of years that the business had been in operation. The age of the business was estimated by subtracting the year of the establishment of the business from the year of survey. To ascertain the firm's international experience, the respondents were asked to indicate how many years their IJV had been operating in China. The performance indicators of profitability, growth of sales, and market share were used. The combination of the three performance indicators had an alpha of 0.834, which is statistically acceptable.

ANALYSIS AND RESULTS

We conducted a factor analysis using Varimax rotation to examine the underlying patterns of the eleven items on the primary effects of an IJV's business reinvestment. Table 2 suggests that there are clear factor loading patterns. Three implication factors of business reinvestment resulted: organizational growth, management competence, and market competitiveness. The cumulative variance that was explained by these three implication factors was 58.52%. The unidimensionality and reliability of each construct was validated by the achievement of high communality estimates (> 0.77) and a good internal consistency (Cronbach's alpha of 0.752), respectively. Our results suggest that organizational growth, management competence, and market competitiveness are sound variables to use.

Table 3 presents the means, standard deviations, and zero-order intercorrelations of the measures. Positive and significant coefficients were achieved between the key variables of cost effectiveness, long-term development, management competence, market competitiveness, and performance. Our results suggest that empowering the management of an IJV to make business reinvestments provides the IJV with a high level of management competence and market competitiveness, which in turn helps the IJV to achieve superior performance.

Table 4 presents a standardized regression analysis, using univariate analysis of the variance, of an IJV's development and the primary effectiveness of its business reinvestment with regard to growth, competence, and market competitiveness. Several of the assumptions of the regression analysis were verified before running the test. The multicollinearity threat was revealed to be nonexistent, as is demonstrated by the variance inflation factor values (1.07 - 1.53) for all of the independent and control variables. The univariate normality assumption for each variable was validated by a modified Kolmogorov-Smirnov test (0.06 - 0.08, $p > .10$). The Levane test was performed to check for the threat of heteroscedasticity. The results for all of the predictor variables demonstrated no pattern of increasing or decreasing residuals, and thus confirmed the assumption of homoscedasticity.

Hypothesis 1 proposes that the pursuit of cost effectiveness will positively influence a firm's performance. However, the results show that the correlation between the achievement of cost effectiveness and overall performance is positive but not statistically significant. Hypothesis 1 is therefore not fully supported. Hypothesis 2 proposes that the pursuit of long-term development will have a positive influence on a firm's performance. Our results show a significant and positive coefficient (beta = 0.177*) between the achievement of long-term business development and performance and thus, Hypothesis 2 is fully supported. The effects of organizational growth and an IJV's performance in Model III are significant ($F = 10.571$, $p < .000$, adjusted $R^2 = 0.329$). However, the coefficient between the level of organizational growth and performance is positive but not statistically significant (beta = .103, $p < 0.09$), and thus Hypothesis 3 is only partially supported. Model IV shows that an improvement in management competence positively influences the tendency to make business reinvestments that improve performance. The result of regression model IV is significant ($F = 12.893$, $p < .000$, adjusted $R^2 = 0.414$), and therefore a high level of management competence is a factor in the achievement of better performance (beta = .402, $p < .000$), which supports Hypothesis 4. Model V shows that the establishment of market competitiveness positively influences the tendency to make business reinvestments that affect performance, and the results predict 24% of the variance in performance. The model is significant ($F = 5.777$, $p < .000$), and thus Hypothesis 5 is supported.

Table 5 presents the moderated multiple regression analysis of the performance implications of business reinvestment. The full model regresses the success of business reinvestment for the attainment of organizational growth, management competence, and market competitiveness that conjointly lead to superior performance. The results of the full model are significant ($F = 17.749$, $p < .00$, adjusted $R^2 = 0.554$), and thus Hypothesis 6 is supported.

DISCUSSION

This study describes the reinvestment decisions that are available to the management of an IJV. The examination of business reinvestment is of enormous practical importance for academics and practitioners in terms of the effective management of the reinvestments of an IJV to achieve cost effectiveness or long-term business development. We use individual dimensions of corporate development and the effectiveness of business reinvestment in the growth, management competence, and market competitiveness of IJVs to reveal the more complete framework within which the business reinvestment in IJVs is achieved.

Corporate Development

This study focuses on the traditional argument of TCE that achievement of cost effectiveness adds value to corporate development. Cost effectiveness is used as an indicator to assess corporate development portfolios, as the potential of a firm's competitive advantages needs to be weighed against the costs that are associated with the firm's business expansion (Bowman & Hurry, 1993; Keef & Roush, 2001; Reus & Rite, 2004). Our findings indicate that business reinvestment is very important in the encouragement of IJV hotels to commit critical resources. In particular, an important finding of this study regarding the achievement of cost effectiveness is that an IJV which engages in reinvestment activities can enhance its performance; however, the result is not statistically significant.

This study demonstrates that long-term business development motivates the business reinvestments of IJVs. Most Chinese IJV hotels allow significant managerial discretion regarding long-term development, which permits the local management to acquire greater influence over strategic matters. The results of the analysis confirm that the management of IJVs can play an active role in decision-making, including adaptation to changes in international service standards, the improvement of service know-how, and management practice. Our findings support the notion that the confidence and commitment of parent firms to IJVs which have made business reinvestments locally tend to exercise positive effects on performance.

Implications of Business Reinvestment

The active involvement of the management of an IJV in the business reinvestment of the IJV has a positive influence on its performance. The major challenge for the management of an IJV is to identify how business reinvestment can actually achieve ample development opportunity (Reur & Tong, 2005). Our findings suggest that most IJV hotels have achieved high levels of organizational growth although the result is not statistically significant. Our respondents confirm that IJV hotels need to be more careful to identify international service criteria and value drivers for business reinvestment when their new market entries are backed by parent firms. As a consequence, parent firms may prefer to contain their contribution to business reinvestment to offering adequate service and innovative activities, managerial skills, and international cooperation. The achievement of a high growth ratio has led the parent firms of most Chinese IJVs to reinvest more in the core knowledge and resources of their subsidiaries. Most of the managers who were interviewed confirmed that an important way to maintain and develop the requisite levels of business reinvestment of IJV hotels is to sustain a good business reputation, customer loyalty, product image, and international business experience. The recognition that the role of local IJV managers in making reinvestment decisions dramatically affects the performance of the IJV is an important finding. However, we find that the facilitation of reinvestment rights is clearly contingent on the ability of the management of an IJV to provide critical assets and capabilities. Specifically, this research has also identified whether, and under what conditions, Chinese IJV hotels can obtain the promise of critical resources from parent firms.

Our findings indicate that Chinese IJV hotels are likely to exercise management competence in service skills, reinvestment ability, marketing knowledge, training, and professional support services to improve overall service competency. Most IJVs emphasize their ability to extend the use of existing expertise with management competency development programs in an attempt to embed the interpersonal skills, managerial flexibility, and business norms of managers into the management culture. The results from our sample confirm that any new investments in the service industry represent a qualitative change to the services of IJV hotels as top management can enact great changes by implementing international benchmarks along with the best organizational practices. This study also demonstrates that most managers of IJV hotels are motivated by competence training, and actively seek to implement what they have learned in the firm to attain their goals. Our results show that a high level of management competence in Chinese IJVs rests on matching business reinvestment to specific training programs and production facilities. Some of the most successful IJV hotels were those that had a sufficient number of expatriates, who were appointed by the parent firms, to control the whole organization.

Chinese IJVs, because of considerable market competitiveness, must be adaptive, cooperative, and innovative. The continuous realignment of the business of IJVs with the expectations of their customers is critically important in dealing with the complex and changing market environment. Our findings indicate that the scale of business reinvestment in terms of maintaining, adding, and launching new resource commitments is larger for IJVs than that of local hotel firms, because IJVs have greater access to both internal and external funding to undertake business investments. The establishment of the market competitiveness of an IJV is significantly based upon the ability of the IJV to continuously improve its service capabilities, including adaptation of services to the local market, ability to adapt to new market conditions, and the willingness of its managers to improve the quality of supplies. In this regard, business reinvestment is affected by local market competition, as competitors may pressure IJV hotels to adopt international service standards in conjunction with local management practices and expertise. The results suggest that Chinese IJV hotels achieve superior market competitiveness if the management of the IJV hotel has the necessary management competence that enables the business to continually introduce new services and adapt to market developments.

Control Variables

Our results suggest that the star rankings of most Chinese IJV hotels have a positive impact on their growth, competence, and market competitiveness. However, the correlation between the location of an IJV hotel and performance is negative. With regard to size and business duration, our results indicate that the maintenance of high-quality services can be achieved by IJV hotels. In this study, the control variables were expected to exercise a less direct influence on performance. We argue that the responses of the interviewed managers reflect differences in the size and duration of the firms. The performance of IJV hotels varies across regions in a country as vast as China. Hence, the relationship between a hotel firm and its star ranking depends upon its size.

CONCLUSION

This study is among the first to provide new empirical evidence for the use of an IJV, a hybrid organizational structure, as a suitable testing form for the prediction of business reinvestment. With regard to the financial economics of reinvestment effectiveness, this study provides a novel attempt to develop a theoretical framework that explains how business reinvestment for cost effectiveness and long-term development can be effectively achieved. In contrast, strategic management demonstrates that business reinvestment is mainly dependent upon the role of an IJV management in the deployment of innovative services and marketing expertise. The empirical findings of this study are very meaningful, as Chinese IJVs should recognize that business reinvestment is the basis of the potential resource development for their ongoing corporate development. This study can also alert managers of IJVs in the international service sector to three important aspects of making business reinvestment decisions. First, the study offers important insights into a broader reinvestment domain of IJVs regarding organizational growth, management competence, and market competitiveness. The findings assist IJV managers to formulate a business reinvestment strategy for the enhancement of the overall resource competitiveness of the IJV. Second, the business reinvestment of Chinese IJVs is found to have a tendency to be affected not only by economic factors such as cost effectiveness and long-term development, but also by management factors such as management competence and market competitiveness. The empirical evidence of this study indicates that reinvestment decisions that are made by the management of an IJV facilitate a high level of management competence, and the data from the 136 IJVs appear to largely support our hypotheses in this respect. Finally, this study not only examines the direct effects of cooperative development on performance, but also assesses the mediating effects of business reinvestments on performance, both in isolation and conjointly. In general, our study suggests that business reinvestment of Chinese IJVs in the hotel industry sector that involves the upgrading of local services to international service standards is positively related to an improvement in performance, especially when the management of an IJV plays an active role in making the reinvestment decisions of the IJV.

Table 1: Findings on Business Reinvestment and its Effectiveness for International Joint Ventures

Key Issue	Theorists	Key Findings
Corporate development	Carlson, Lawrence, & Wort, 1974; Heaton, 2000; Si & Bruton, 2005; Merchant, 2002; Reus & Rite, (2004).	Corporate developments can have major long-term implications; anticipation of a future expected return that must exceed the cost of making its current resource commitments; market and technology-related investment can dominate corporate developments.
Organizational growth	Rogers et al., 1999; Keef & Roush, 2001; Luo & Ho, 2001; Noble et al., 2002	Minimizing its financial risks provides a high level of growth through attaining long-term developments; strategy to invest a firm's resources can change the growth options of its existing resource base.
Management competence	Dunning & Kundu, 1995; Roth & Morrison, 1992; Lyles & Baird, 1994; Grewal & Tansuhaj, 2001;Tosi et al., 2003	The identification of its control mechanism; human factors are involved in a firm's business investments for past venture experience, subjective evaluations, and foresights; maintaining the technical standards, employee skills, and human resource management.

Table 2: Factor Analysis of Business Reinvestment (N = 136 IJVs)

Variable	Cronbach's alpha	Factor loading
Organizational Growth	.782	
Increase in service activity		.780
Increase in innovational activity		.775
Improvement of quality of cooperation with foreign firms		.748
% of variance explained		21.694
Management Competency	.752	
Improvement of management skills		.715

Enhancement of marketing knowledge .695

% of variance explained		18.686

Market Competitiveness .753

Adaptation of services to the local market .815

Ability to adapt to new market conditions		.804

Quality of supplies .768

Quality of services		.696
% of variance explained		18.142
Cumulative % of variance explained		58.522

Table 3: Means, Standard Deviations, and Correlations of the sample IJVs (N = 136 IJVs)

	Mean
	4.61
	4.14
	21.76
	18.27
	21.79
	14.92
[redacted]	514

16

Note: One-tailed probabilities: *p < .05; **p < .01; ***p < .001.

Table 4: Corporate Development and Business Reinvestment: Standardized Regression Analysis

Independent Variables	Direct Effects of Corporate Development		Moderating Effects of Business Reinvestment		
	Cost Effectiveness Model I	Long-term Development Model II	Organizational Growth Model III	Management Competence Model IV	Market Competitiveness Model V
Intercept	3.502	2.986	7.187	6.35	8.741
Number of employees	.0595	.121*	.213**	.155*	.210**
Business duration	.233**	.298***	.102	.153*	.103
Location	-.208**	-.323***	-.145*	-.297***	-.184*
Hotel star ranking	.112	.105	.328**	.270*	.102
Organizational growth	-.102	-.122*	-	-	-
Management competence	.440***	.336***		-	-
Market competitiveness	.180*	.298***	-	-	-
Performance	.101	.177*	.103	.402***	.493***
Cost effectiveness	-	-	.116	.189***	.102
Long-term development	-	-	.368***	.309***	.151**
F-value	8.625	12.932	10.571	12.893	5.777
Sig. of F change	.000	.000	.000	.000	.000
Adjusted R^2	.283	.482	.329	.382	.198
R square	.321	.409	.364	.414	.240

Notes: One-tailed probabilities: *p < .05; **p < .01; ***p<.001; N = 136 IJVs.

Table 5: Results of Moderated Multiple Regressions of the Performance of Business Reinvestment

Variable	Control Variables	Control Variables + Business Reinvestment	Control Variables + Business Reinvestment + SDP	Full Model
Number of employees[1]	.140*	.131*	.101	.103
Business duration	.106	.103	.104	.109
Location	-.117*	-.109	-.113	-.199**
Hotel star ranking	.109*	.102	.134*	.249**
Organizational growth (OG)		-.107	-.111	.-427
Management competence (MC1)		.347***	.172**	.256*
Market competitiveness (MC2)		.213**	.142*	.127*
Corporate developments (CD)				.275**
CD * OG				-.117*
CD * MC1				-.019
CD * MC2				.003
F-value	6.577	8.877	19.771	19.295
Sig. of F change	.000	.000	.000	.000

Adjusted R^2	.063	.237	.442	.520
Change in adjusted R^2	.053	.210	.420	.549

Notes: One tailed probabilities: *p < .05; **p < .01; ***p<.001; [1]log of number of employees; N = 136 IJVs.

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