



Product innovation in emerging market-based international joint ventures: An organizational ecology perspective

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Abstract

This study investigates product innovation in market-seeking international joint ventures (IJVs) in a large emerging market, and tests two sets of hypotheses: *organizational orientation* and *environmental adaptation*. Drawing on organizational ecology theory, we suggest that IJVs' product innovation can be understood as a consequence of organizational orientation defined by IJV contract specifications and as a subsequent response to major contingencies of the local environment. Empirically, we analyzed a longitudinal dataset consisting of 3555 IJVs in China from 1999 to 2003, and found strong support for both sets of hypotheses. Product innovation in IJVs is positively associated with initial conditions such as balanced ownership structure, state partnership, and project size; IJVs are more innovative when they operate in an industry with a faster pace of innovation or a higher level of foreign direct investment legitimization, and where they are located in a region with greater agglomerated innovative activities.

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INTRODUCTION

There is a growing need to shift the research focus on foreign direct investment (FDI) in emerging markets from viewing multinational enterprises (MNEs) as merely foreign investors to seeing them as strategic insiders (Luo, 2007). Extant international business research has, for the most part, taken the foreign investor perspective to examine entry-related issues, leaving many after-entry issues unaddressed, such as value chain localization, competence building, and adaptive product innovation. As a response to this void, we examine one of the important issues facing strategic insiders – namely, product innovation in emerging market-based international joint ventures (IJVs).

Product innovation in IJVs is of significant importance for international business research. It is indicative of both exploitation of existing advantages in parent firms and exploration of new advantages developed in the local market, and can thus capture how MNEs strategize in local adaptation. Product innovation can also be seen as an outcome of IJVs' combinative capabilities, reflecting how well foreign and domestic partners collaborate in

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