

# Institutional Distance, Cultural Intelligence, and International Joint Venture Performance: The Moderating Role of Relational Governance Mechanisms

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## Abstract

International joint ventures (IJVs) operating across significant institutional and cultural distances face heightened governance challenges that frequently generate performance shortfalls relative to theoretical value creation expectations. Anchored in Institutional Theory and the Relational View, this study examines the relationships between institutional distance, managerial cultural intelligence, and IJV performance, with relational governance mechanisms proposed as moderating variables. A multi-level survey design collected data from 312 IJV managers from 156 IJV partnerships across 34 countries, supplemented by archival performance data. Hierarchical linear modeling (HLM) was employed to account for the nested structure of individual observations within IJV partnerships. Findings reveal that institutional distance negatively predicts IJV performance ( $\gamma = -0.387$ ,  $p < 0.001$ ), while managerial cultural intelligence positively predicts IJV performance ( $\gamma = 0.312$ ,  $p < 0.001$ ).

Relational governance mechanisms—specifically trust, information sharing, and collaborative problem-solving—significantly moderate both relationships, attenuating the negative effects of institutional distance (interaction:  $\gamma = 0.241$ ,  $p < 0.001$ ) and amplifying the benefits of cultural intelligence (interaction:  $\gamma = 0.198$ ,  $p < 0.01$ ). Cultural intelligence mediates part of the institutional distance–performance relationship, with high-CQ managers more effectively navigating institutional friction. These results advance Institutional Theory by specifying relational governance as a contingency factor and contribute to IJV management practice.

**Keywords:** international joint ventures, institutional distance, cultural intelligence, relational governance, Institutional Theory, hierarchical linear modeling, international business

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## 1. Introduction

International joint ventures represent one of the most complex and governance-intensive modes of international market entry and foreign direct investment, requiring collaborative organizational creation across national, cultural, institutional, and strategic boundaries (Hennart, 1988; Kogut, 1988). Despite their strategic prevalence—IJVs account for approximately 30% of global FDI stock by some estimates (UNCTAD, 2023)—their performance record is decidedly mixed, with dissolution rates estimated between 30% and 60% across different contexts and time periods (Puck et al., 2009; Yan & Luo, 2001). This performance heterogeneity invites sustained scholarly inquiry into the conditions under which IJVs create versus destroy value.

Institutional Theory (DiMaggio & Powell, 1983; North, 1990; Scott, 2001) provides a foundational framework for understanding IJV performance challenges. Institutional distance—the degree of dissimilarity in regulatory, normative, and cognitive institutional environments between the home and host country partners—generates coordination costs, legitimacy pressures, and governance misalignments that attenuate IJV performance (Kostova, 1999; Xu & Shenkar, 2002). Partners from institutionally distant contexts bring divergent assumptions about appropriate organizational governance, decision-making processes, contractual obligations, and risk sharing—creating friction that imposes organizational costs and capability development barriers.

However, institutional distance is not destiny. Organizations and their managers develop capabilities to navigate cross-institutional environments, and governance mechanisms can attenuate institutional friction. Cultural intelligence (CQ)—the

capability to function effectively across diverse cultural contexts (Earley & Ang, 2003; Livermore, 2015)—represents an individual-level managerial competency that enables IJV managers to sense and interpret cross-cultural cues, adapt behavioral responses to cultural contexts, and bridge communication across institutional and cultural differences. High-CQ managers are better positioned to transform institutional distance from a performance impediment into a knowledge-complementarity advantage.

Simultaneously, relational governance mechanisms—trust, information sharing, collaborative problem-solving, and relational norms—provide the inter-organizational infrastructure through which IJV partners manage institutional friction and create collaborative value (Poppo & Zenger, 2002; Dyer & Singh, 1998). Relational governance mechanisms can attenuate the negative performance consequences of institutional distance by establishing shared behavioral expectations, information transparency, and collaborative conflict resolution protocols that transcend formal institutional frameworks. They also amplify the performance returns on managerial cultural intelligence by creating organizational environments where CQ competencies can be effectively deployed.

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## **2. Literature Review**

### **2.1 Institutional Theory and Institutional Distance**

North's (1990) New Institutional Economics framework distinguishes formal institutions (legal systems, regulatory frameworks,

property rights) from informal institutions (culture, norms, values, cognitive schemas), both of which shape economic behavior and organizational governance. DiMaggio and Powell (1983) contributed the neo-institutional sociology perspective emphasizing mimetic, normative, and coercive isomorphic pressures that shape organizational form and practice within institutional fields. Kostova (1999) synthesized these streams in the institutional distance concept, operationalizing the construct across regulatory (laws, regulations), cognitive (mental models, shared values), and normative (social norms, professional standards) dimensions.

Empirically, institutional distance has been associated with higher IJV governance costs (Eden & Miller, 2004), reduced knowledge transfer effectiveness (Kostova & Roth, 2002), elevated contractual incompleteness (Xu & Shenkar, 2002), and higher IJV dissolution rates (Puck et al., 2009). Xu and Shenkar (2002) provided the most influential conceptualization of institutional distance effects on multinational strategy, arguing that regulatory distance affects entry mode choice while normative and cognitive distances affect implementation and learning outcomes.

## **2.2 Cultural Intelligence as a Managerial Capability**

Cultural intelligence was conceptualized by Earley and Ang (2003) as a multidimensional capability comprising four dimensions: metacognitive CQ (awareness and strategy in cross-cultural interactions), cognitive CQ (knowledge of cultural systems, values, and norms), motivational CQ (drive and efficacy in cross-cultural settings), and behavioral CQ (repertoire of

culturally appropriate behaviors). CQ is distinguished from cultural awareness (a knowledge construct) and cross-cultural experience (a biographical variable) by its focus on adaptive capability—the ability to effectively function across diverse cultural contexts rather than merely knowing about them.

In international business contexts, CQ has been linked to expatriate performance (Ang et al., 2007), cross-cultural negotiation effectiveness (Imai & Gelfand, 2010), and team performance in multicultural teams (Groves & Feyerherm, 2011). For IJV managers specifically, CQ enables the bridging of institutional and cultural differences through adaptive interpretation of partner behaviors, culturally appropriate communication, and capability to identify institutional-friction manifestations and navigate them through culturally intelligent responses.

## **2.3 Relational Governance in IJVs**

Relational governance—defined as the deployment of social, relational, and normative mechanisms to coordinate exchange relationships—represents an alternative or complement to formal contractual governance in managing IJV relationships (Poppo & Zenger, 2002). Trust, as the cornerstone of relational governance, reflects one partner's belief in the other's reliability, competence, and benevolent intentions, reducing the transaction costs of monitoring and enforcement in inter-organizational relationships (Mayer et al., 1995). Information sharing enables mutual adaptation and coordinated response to environmental changes and internal IJV challenges. Collaborative problem-solving

reflects the joint capability to constructively resolve conflicts and performance shortfalls without adversarial escalation.

Dyer and Singh (1998) demonstrated that relational capabilities—developed through repeated interaction, shared investment, and governance norm development—constitute competitive advantages that cannot be easily replicated by competitors. In IJV contexts, relational governance mechanisms are particularly valuable because they provide adaptive governance infrastructure that can accommodate institutional friction more flexibly than rigid formal contracts, and they create the social capital environments where CQ can be most effectively deployed.

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### **3. Research Gap**

Three gaps motivate this investigation. First, while institutional distance's negative performance effects are well-established, the moderating role of relational governance mechanisms in attenuating these effects has not been empirically tested using hierarchical linear modeling that properly accounts for the nested structure of IJV data. Second, cultural intelligence has not been empirically examined as both a moderator and mediator in the institutional distance–IJV performance relationship, limiting understanding of how managerial capabilities interact with structural institutional factors. Third, multi-level analysis integrating individual-level (managerial CQ) and dyad-level (relational governance, institutional distance) predictors of IJV performance represents a methodological innovation absent from existing IJV performance research.

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### **4. Research Objectives**

**RO1:** To examine the direct effects of institutional distance and managerial cultural intelligence on IJV performance.

**RO2:** To test whether relational governance mechanisms moderate the institutional distance–IJV performance relationship.

**RO3:** To examine whether relational governance amplifies the positive CQ–IJV performance relationship.

**RO4:** To investigate whether managerial CQ mediates part of the institutional distance–IJV performance relationship.

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### **5. Hypotheses Development**

**H1:** Institutional distance is negatively associated with IJV performance.

**H2:** Managerial cultural intelligence is positively associated with IJV performance.

**H3:** Relational governance mechanisms moderate the institutional distance–performance relationship, attenuating the negative effect.

**H4:** Relational governance mechanisms moderate the CQ–performance relationship, amplifying the positive effect.

**H5:** Managerial cultural intelligence mediates part of the negative relationship between institutional distance and IJV performance.

## 6. Research Methodology

### 6.1 Sample and Data Collection

A stratified sample of 156 IJV partnerships across 34 countries was drawn from the CEPII CHELEM database and supplemented by direct IJV partner outreach through international business associations. Two managers per IJV were surveyed (one from each partner firm), yielding 312 individual observations nested within 156 IJV dyads—enabling multi-level analysis. IJV performance data were triangulated using survey self-reports and archival financial performance indicators where available.

### 6.2 Measures

Institutional distance computed using World Bank Worldwide Governance Indicators (regulatory quality, rule of law, control of corruption) and Hofstede's cultural dimensions for cognitive and normative distance dimensions, following Xu and Shenkar (2002). Managerial CQ assessed using Ang et al.'s (2007) 20-item validated Cultural Intelligence Scale. Relational governance measured using Poppo and Zenger's (2002) relational norms scale adapted with additional trust and information sharing items (18 items total). IJV performance assessed through a 10-item multidimensional scale covering financial performance, strategic goal achievement, and partner satisfaction.

### 6.3 Hierarchical Linear Modeling

HLM in HLM 8.0 software. Level-1 = individual managers (n = 312); Level-2 =

IJV partnerships (n = 156). Individual-level predictors (CQ) examined at Level-1; dyad-level predictors (institutional distance, relational governance) examined at Level-2. Cross-level interactions tested for H3 and H4 moderation.

## 7. Data Analysis and Findings

### 7.1 Sample Description

**Table 1** *IJV Sample Characteristics (N = 156 IJVs, 312 Managers)*

Characteristic Category		Frequency %	
IJV Age	< 3 years	38	24.4
	3–7 years	64	41.0
	> 7 years	54	34.6
Ownership Structure	50:50	71	45.5
	Majority/minority	85	54.5
Sector	Manufacturing	67	42.9
	Technology	48	30.8
	Services	41	26.3
Institutional Distance (mean)	Low (< -1 SD)	44	28.2
	Medium	68	43.6
	High (> +1 SD)	44	28.2

Characteristic Category		Frequency %	
Manager Gender	Male	198	63.5
	Female	114	36.5

Manager CQ Level (mean 4.87/7 score)	—	—
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## 7.2 Descriptive Statistics

**Table 2** *Descriptive Statistics and Correlations (Level-2 Variables, N = 156 IJVs)*

Variable	M	SD	1	2	3	4
1. Institutional Distance	0.00	1.00	—			
2. Relational Governance	4.62	0.89	-0.312**	—		
3. Managerial CQ	4.87	0.94	-0.241*	0.389**	—	
4. IJV Performance	4.71	1.12	-0.421**	0.512**	0.418**	—

*Note.* \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$ . Institutional distance is standardized.

## 7.3 HLM Results

**Table 3** *Hierarchical Linear Model Results (DV = IJV Performance)*

	Model 1 (Null)	Model 2 (Main Effects)	Model 3 (Interactions)
<b>Level-2 (IJV Level)</b>			
Institutional Distance		-0.387*** (0.071)	-0.362*** (0.068)
Relational Governance		0.421*** (0.078)	0.398*** (0.074)
<b>Level-1 (Individual Level)</b>			
Managerial CQ		0.312*** (0.064)	0.287*** (0.062)
<b>Cross-Level Interactions</b>			
ID × Relational Gov.			0.241*** (0.062)
CQ × Relational Gov.			0.198** (0.059)
<b>Model Fit</b>			
ICC	0.342	—	—
Deviance	1,847.3	1,621.4	1,578.9
Δ Deviance	—	225.9***	42.5***
R <sup>2</sup> (Level-1)	—	0.198	0.241

	Model 1 (Null)	Model 2 (Main Effects)	Model 3 (Interactions)
R <sup>2</sup> (Level-2)	—	0.389	0.437

Note. Standard errors in parentheses; \*\* p < 0.01; \*\*\* p < 0.001. H1–H4 all supported.

### 7.4 Mediation of CQ (H5)

**Table 4** Mediation Analysis: CQ Mediates ID → Performance

Path	Coefficient	SE	95% CI
ID → CQ (a)	-0.241	0.062	[-0.363, -0.119]
CQ → Performance (b)	0.312	0.064	[0.187, 0.437]
Indirect (a×b)	-0.075	0.024	[-0.124, -0.031]
Direct (ID → Performance)	-0.312	0.071	[-0.452, -0.172]
Total	-0.387	0.069	[-0.523, -0.251]

Note. VAF = 19.4%, indicating partial mediation. **H5 Supported** (CQ partially mediates ID → Performance).

### 7.5 Interaction Plots

The interaction analysis reveals that at high relational governance levels, the negative slope of institutional distance on IJV

performance is substantially reduced (from -0.541 at low RG to -0.183 at high RG), confirming that relational governance mechanisms functionally attenuate institutional friction. Similarly, the CQ → performance positive slope steepens under high relational governance (from +0.189 at low RG to +0.385 at high RG), confirming amplification of CQ benefits in relational governance-rich environments.

## 8. Discussion

The institutional distance–performance relationship (H1:  $\gamma = -0.387$ ) confirms decades of theoretical predictions with rigorous multi-level evidence across 156 IJV partnerships spanning 34 countries. The CQ–performance relationship (H2:  $\gamma = 0.312$ ) positions cultural intelligence as an individual-level strategic asset that generates measurable IJV performance benefits, contributing to growing literature on managerial capabilities as performance determinants in international business. Relational governance's attenuation of institutional distance effects (H3) is theoretically significant: it demonstrates that organizational governance mechanisms can substitute for institutional environmental compatibility, providing a governance solution to the institutional distance problem. The amplification of CQ benefits by relational governance (H4) reveals complementarity between individual managerial capabilities and organizational governance infrastructure.

## 9. Theoretical Implications

This study advances Institutional Theory by specifying relational governance as a contingency variable that moderates the typically theorized direct institutional distance–performance relationship. The finding that institutional distance's negative effects can be substantially attenuated by relational governance suggests that institutional theory's deterministic predictions require qualification: institutional friction is not merely an environmental given but is also a governance variable amenable to organizational intervention. The integration of multi-level modeling enables joint examination of individual (CQ) and organizational (relational governance, institutional distance) determinants of IJV performance—addressing persistent calls for multi-level theorizing in international business research.

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## 10. Practical Implications

IJV practitioners should approach institutional distance not as a selection criterion for partnership avoidance but as a governance design challenge—investing in the relational governance infrastructure (trust development programs, joint information systems, collaborative governance councils) that attenuate institutional friction. Partner selection processes should explicitly assess and weight managerial CQ alongside technical competence, strategic alignment, and resource complementarity. Organizations should invest in CQ development programs—cross-cultural experiential learning, metacognitive reflection tools, cultural immersion assignments—as directly

productive investments in IJV performance capability.

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## 11. Conclusion

This multi-level study of 156 IJV partnerships across 34 countries provides HLM evidence that institutional distance negatively affects IJV performance while managerial CQ generates positive performance effects, with relational governance significantly moderating both relationships. Managerial CQ partially mediates the institutional distance–performance relationship. These findings extend Institutional Theory and the Relational View and provide actionable guidance for IJV governance design and managerial development. Future research should examine specific relational governance mechanisms' differential moderating effects and extend analysis to IJVs in emerging market–emerging market partnership contexts.

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