STRATEGIC OBJECTIVES, PARENT CONTROL AND

PERFORMANCE: A STUDY OF SINO-EUROPEAN

INTERNATIONAL JOINT VENTURES

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Dedicated to my parents and my wife

Acknowledgements

Abstract

The study explores the relationship between the strategic objectives of foreign firms entering international joint ventures, foreign parent control, and joint venture performance in the context of Sino-European IJVs. Using an integrative approach, this study incorporates market power, transaction costs, and organisational learning theories which provide a more comprehensive understanding of IJV strategic objectives. The findings reveal that foreign partners consider market-developing and knowledge-acquiring objectives as important and IJV performance in relation to these objectives as satisfactory.

This study found different categories of objectives perform differently in IJVs. The relationship between parent control and IJV overall performance received strong support. Direct and indirect relationships between strategic objectives and IJV overall performance are found. The empirical evidence confirms the significant moderating effects of parent control on attainment of strategic objectives. The moderating effects of parent control do not merely intensify or weaken the relationship between strategic objectives and satisfaction in relation to these objectives, but also parent control has different moderating effects in relation to different strategic objectives.

Research in international joint ventures is often associated with financial problems because of geographical constraints. This study concentrated initially on a web-based survey, using a mail survey to increase response rate as needed. The majority of respondents (87%) completed the questionnaire online. This provides

excellent evidence for researchers to make use of web-based surveys in future international marketing studies.

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Finally, China, as the biggest recipient of foreign direct investment in developing countries, seems the logical choice for the analytical context. This research thus contributes to the IJV literature on the Chinese experience.

Chapter 1.   INTRODUCTION

1.1.   Chapter Introduction

The first chapter gives a brief historical background of foreign direct investment (FDI) in China. The objectives of the study and the implications for theory and practitioners are given. The research questions of the study are presented. The last two sections provide the organisation of the study and a chapter summary.

1.2.   Research Background

The world market of today is characteristised by a move towards globalisation, escalating capital requirements for research and development, increased sophistication of new products and rapid technological obsolescence which shortens the product life cycle (Groot and Merchant, 2000). These trends are forcing companies to reexamine the feasibility of traditional market development methods and market entry strategies. Inevitably, they come to realise that no matter how strong and resourceful is a company, there is no way it can have competitive advantage in each and every step of the value added process in all national markets, nor can it maintain a cutting edge in all the different critical technologies required for the development, production and

marketing of today's sophisticated products. There are tremendous and often prohibitive costs, risks and time required in setting up new research, manufacturing and distribution facilities. Thus, strategic alliances have become the logical means to rationalise operations, to overcome market barriers and to maintain a company's global competitive position (Inkpen and Ross, 2001; Chen and Chen, 2002).

Meanwhile, as the growth of markets in developed countries has been slowing down, multinational enterprises (MNEs) in developed countries are becoming more and more dependent on the growth of developing markets (Child and Faulkner, 1998). Given the battle for survival and success at the international level, multinational corporations have realised that it is critical to partner with other companies instead of attempting to face the growing uncertainty by themselves. Since corporations increasingly utilise alliances as tools for attaining strategic objectives, the issue is experiencing a corresponding increase in attention from academics and practitioners (Berdrow and Lane, 2003).

Companies often take a wide variety of forms to implement cooperative strategies. Contractor and Lorange (1988) identified two broad organisational modes of strategic alliances: equity and non-equity alliances. Equity alliances are created when two or more partners join forces to form a newly incorporated company in which each has an equity share and each participates in the decision-making activities of the venture (Geringer, 1991). They can range from total acquisition, minority investment to joint ventures. In contrast, non-equity alliances are agreements between

partners to cooperate in some way, but they do no involve the creation of new firms, or equity transactions. They include unidirectional agreements, such as licensing, second sourcing, and distribution agreements, and bidirectional agreements, such as joint contracts and technology exchange agreements.

As an intermediate alternative between acquisition (or internal development) and dependence on spot market transactions, equity joint ventures represent a special, highly flexible means of enhancing innovation or achieving other strategic objectives. Although equity joint ventures are particularly difficult to manage (Killing, 1983), it appears that, as the necessity for rapid response becomes greater, as business risks and costs soar, and competition becomes more severe, firms are relying on international joint ventures with increasing frequency (Colvin, 1999; Doz and Hamel, 1998; Hopkins, 1999). There is no apparent reason for this trend not to continue.

1.3.   Foreign Direct Investment in China

The opening of China's market to foreign direct investment (FDI) in 1979, symbolised by the promulgation of Chinese-Foreign Joint Venture Law on July 1, 1979, signaled the beginning of a new era in the history of China's economic development. Until 1991, the amount of both contractual and actual investment was small. Most FDI came from small and medium-sized enterprises in Hong Kong and was highly concentrated in Guangdong province. Production of foreign-invested

enterprises was overwhelmingly export-oriented and had little link with the domestic economy (Naughton, 1996). The "take-off" of foreign direct investment actually took place in 1992 (see Table 1.1). In the next ten years, annual contractual investment increased from US$ 11.977 billion in 1991 to US$ 82.768 billion in 2002, and annual actual investment rose from US$ 4.366 billion in 1991 to US$ 52.743 billion in 2002 (MOFTEC, 2004)

The effects of foreign direct investment became prominent in several important respects. A World Bank report indicates that the nature of China's economic growth has been both production-driven and input-driven (World Bank, 1997). Each of these two factors contributed around half of the 9.4 percent annual GDP growth rate for the period 1978 to 1995 and is likely to continue to have done so after these dates. The input factor is attributed to the significant increase in capital in which foreign direct investment played an important role. The share in total exports from China contributed by foreign-invested enterprises increased from 16.75 percent in 1991 to 52.20 percent in 2002. The share of foreign invested enterprises in the total industrial output values increased from 5.29 percent in 1991 to 33.37 percent in 2002 (MOFTEC, 2004).

Throughout the period of 1979-2002, the Hong Kong Special Administration Region (SAR) was the most important source of FDI in Mainland China. Table 1.2 shows that it contributed 45.14 percent of the total cumulative contractual investment and 45.73 percent of the total cumulative actual investment respectively. Other

important sources of FDI include the U.S., Japan, and European Union countries. FDI from the United States followed a steady pace of increase from 1992, especially for actual investment. Its shares in the total contractual and actual investment increased from 4.58 percent and 7.40 percent in 1991 to 9.85 percent and 10.28 percent in 2002 respectively (MOFTEC, 2004). FDI from the EU followed a similar path. The shares in the total contractual and actual investment rose from 6.34 percent and 5.63 percent in 1991 to 8.17 percent and 8.27 percent in 2002 respectively (MOFTEC, 2004). In addition, in 2004, the EU becomes China's largest trading partner and China becomes the EU's second largest trading partner (Xinhua, 2004). The main investors of European countries are United Kingdom, Germany, and France. For both the US and EU, the amounts of both contractual and actual investment in 2002 were significantly higher than the previous peak levels. After 1997, the US remained the second largest investor in China.

The relative increase in the investment shares of the US and EU might be explained by the following factors (Lai, 2002; Pei, 1996). First, investment aimed at the export-oriented labour-intensive manufacturing industry from Hong Kong and Taiwan entered a stage of "saturation". Most of the FDI from HK and Taiwan is in light manufacturing industries, suggesting that low labour costs represent an important motivation behind these investments. By comparison, Western firms investing in China appear to be attracted by mainly the growth potential of the booming Chinese consumer market (Tse *et al*, 1997). Second, The South East Asian financial crisis seemed to have adverse effects on the capital outflow from Hong

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Kong, Taiwan and Singapore. It will take these countries and areas a period to recover

from the negative influence. Third, the investment from the US and EU was primarily

concentrated on capital- and technology-intensive sectors, which started at a relatively

low level.

Table 1.1 Foreign direct investment in China: 1979-2002

	Number of Contracts	Contracted Capital (100 million US$)	Utilised Capital (100 million US$)
1979-1982	920	49.58	17.69
1983	638	19.17	9.16
1984	2,166	28.75	14.19
1985	3,073	63.33	19.56
1986	1,498	33.30	22.44
1987	2,233	37.09	23.14
1988	5,945	52.97	31.94
1989	5,779	56.00	33.93
1990	7,273	65.96	34.87
1991	12,978	119.77	43.66
1992	48,764	581.24	110.08
1993	83,437	1,114.36	275.15
1994	47,549	826.80	337.67
1995	37,011	912.82	375.21
1996	24,556	732.76	417.26
1997	21,001	510.03	452.57
1998	19,799	521.02	454.63
1999	16,918	412.23	403.19
2000	22,347	623.80	407.15
2001	26,140	691.95	468.78
2002	34,171	827.68	527.43
Total	**424,196**	**8,280.61**	**4,479.70**

Sources: Almanac of the Chinese Economy, 1979-2002

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Table 1.2 Major Sources of Foreign Direct Investment in China: 1979-2002

	Number of Contracts	Contracted Capital (100 million US$)	Utilised Capital (100 million US$)	Percentage %
Hong Kong	210,876	3,738.06	2,048.75	45.73
U.S.A.	37,280	762.82	398.89	8.90
Japan	25,147	495.32	363.40	8.11
Taiwan	55,691	614.71	331.10	7.39
Virgin Islands	6,659	493.48	243.88	5.44
Singapore	10,727	401.50	214.73	4.79
R. O. Korea	22,208	274.76	151.99	3.39
United Kingdom	3,418	196.33	106.95	2.39
Germany	3,053	143.22	79.94	1.78
France	2,033	71.92	55.43	1.24
Netherlands	1,065	89.75	43.38	1.07
Cayman Islands	706	94.81	380.33	0.85
Canada	6,040	103.77	33.58	0.75
Malaysia	2,538	62.00	28.35	0.63
Other countries	28,928	630.24	293.51	6.55
Total	**424,196**	**8,280.61**	**4,479.70**	**100.00**

Sources: Almanac of the Chinese Economy, 1979-2002

There are four types of FDI in China: Equity Joint Venture, Contractual Ventures, Wholly foreign-owned Enterprise and Cooperative Development (see "China's Legal Construction on Foreign Economy and Trade", 1990, p.69). Equity joint venture is managed under the direction of a board of directors that is usually selected by the investors in proportion to their respective share of equity investment. Profits are distributed in proportion to such shares. Contractual venture refers to a variety of arrangements between the Chinese and foreign partners stipulated in a venture agreement. These terms and conditions spell out the liabilities, rights and obligations of each partner. Wholly Foreign-owned Enterprise is a company organised by a foreign company using entirely its capital, technology, and management. The enterprise manages the operation independently, and is responsible for all risks, gains and losses. Cooperative Development is mainly employed in the exploration and development of offshore oil resources.

Over the years, Chinese government has made available a variety of channels, ranging from wholly owned subsidiaries to licensing, for attracting the inflow of foreign capital. Judging from the attention paid by the government in terms of legislation and promotion efforts, joint ventures appear to be the most preferred channel. This is understandable. In a joint venture, expatriates and local managers work together on a long-term basis and the venture offers an excellent environment for the Chinese to acquire both physical and organisational technologies from the foreign partner (Tsang, 1995). Apart from technology transfer, the advantages that

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China also sees in joint ventures are the addition of foreign exchange to capital resources, the contribution from foreign management, the training and development of Chinese managerial and technical personnel, and a potential outlet to foreign markets. As shown in Table 1.3, Equity Joint Ventures have been the most important type of FDI in China. They accounted for 42.91% of total FDI from 1979 to 2002. Teagarden and Glinow (1990) note the distinction between equity and contractual joint ventures may not be significant. In addition, following past trends, the FDI will most probably take the form of joint venture activity and particularly equity joint ventures which are the Chinese government's preferred mode of investment from overseas companies (Lai, 2002). In this study, therefore, International Joint Ventures (IJVs) in China refers to Equity Joint Ventures (this will be further discussed in Section 2.1).

Table 1.3 FDI in China by investment types: 1979-2002

	Number of Contracts	Contracted Capital (100 million US$)	Utilised Capital (100 million US$)	Percentage (%)
Equity Joint Ventures	225,883	3,275.48	1,922.04	42.91
Contractual Joint Ventures	52,965	1,633.19	827.83	18.48
Wholly Foreign-owned Enterprises	145,165	3,325.38	1,656.16	36.97
Cooperative Development	183	46.54	73.64	1.64
Total	424.196	8,280.59	4,479.66	100

Sources: Almanac of the Chinese Economy, 1979-2002

The fast-growing Chinese economy has, with its vast market potential and wide pool of cheap labour, presented foreign investors with both business opportunities and challenges. The primary problems in managing Sino-foreign joint ventures appear to stem from the disparate skills and objectives of the partners (Makino and Beamish, 1998; Makino and Delios, 1996). Given the potential for conflict, control issues are important considerations for partners (Ding, 1997).

Daniels *et al* (1985) indicated that aside from the size of the Chinese market, a major factor influencing the decision to enter China is that many companies already

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had a substantial presence in most of the rest of the world. Thus, China was considered to be their last untapped market (Si and Hitt, 2004). They found that the great majority of foreign firms wanted to establish a long-run position in China as a potentially strong growth market and as a base within the Asian region. Relevantly, the growth of the Chinese market meanwhile presented an interesting and challenging opportunity to study international alliances in a new institutional context (Child, 1990). Many scholars (e.g., Davies, 1994; Lai, 2002; Lu and Wang, 1996; Skenkar, 1990; Tsang, 2001; Von Glinow & Teagarden, 1988) reported that China was not only the largest developing country but also one of the most structurally complex and environmentally diverse.

Zhang's (1995) survey has provided an overview of equity joint ventures in China. It states that since 1990 around 49 percent of IJVs in China made a profit during the period 1991-1993. However, it was also reported that about 70 percent of Chinese joint ventures failed within the first five years of operations due to misunderstandings between companies having different management styles and cultural backgrounds (Charney, 1997). Beamish (1993) found that foreign joint ventures still have to face a number of problems which are unlikely to change in the near future.

Although research on IJVs in China has been ongoing since the 1980's, Oslan and Cavusgil (1996) suggested that it was still at a stage of infancy. The complex and dynamic business environment in China makes the management of IJVs an intricate

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task (Bruijn and Jia, 1993a). For example, although an IJV is recognised as an international alliance under Chinese law, regulations governing IJVs are not totally clear and regional areas do not always follow the laws passed by central government (Chen, 1995). In addition, bureaucratic obstacles resulting from the various authorities are not unusual and they complicate, for example, both the formation of IJVs and the co-ordination with local suppliers (Pan et al., 1995). State-owned Chinese enterprises are recognised as having serious limitations as IJV partners, including being slow and ineffective at decision making, having too many employees and possessing too much obsolete manufacturing equipment. Because IJVs bring together employees from different cultural backgrounds, this can also be problematic (Fan, 1996; Teagarden and Glinow, 1990).

1.4. Objectives of the Study

Much is yet to be learned about IJVs. As Geringer and Hebert (1989, p.250) observed: our understanding of international joint venture management lags behind the demand of practice. Foster and Young (1997) stated that research journals have barely scratched the surface in the area of business globalisation topics like joint ventures. The central research objective of the present study is to investigate the relationship between the strategic objectives, control and performance of IJVs in developing countries in general, and in China in particular. Specifically, this study has three objectives.

Research objective 1: To improve understanding of IJVs characteristics in developing countries, with a specific focus on China.

Over 70 percent of all IJVs established by MNEs are located in emerging markets (Beamish *et al*, 1997; UNCTAD, 1999). Since conflicting research results have been obtained for international joint ventures in developing and developed countries (Beamish, 1985, 1993), the study of IJVs in China will have important implications for other emerging and non-market economies. As the most important newly emerging market economy in the world (Luo, 2001), China seems the logical choice for the analytical context. The rapid growth of co-operative arrangements in China, an overwhelming majority of which are equity joint ventures, presents a challenging opportunity to study international alliances in a new institutional context and thus has caught the attention of Western management researchers and organisational and management scholars. Although this study uses China as the analytical setting, the framework and key components may be applicable to other contexts, particularly in the emerging, previously centrally-planned economies. On one hand, as Beamish (1993) emphasized, the joint venture process in China is different from that in developed countries and different from that in developing countries that have market economies. On the other hand, China shares an important common legacy with other countries formerly under communist regimes and with centrally planned economic systems. Studying the Chinese experience may help our

understanding of the joint ventures established in the former Soviet republics and East European countries. Other Asian communist countries, such as Vietnam, Laos, during the last half of 1980s, took some steps toward a Chinese style strategy to absorb foreign investment (Pearson, 1990). Given that, this study will contribute to enhancing the understanding of IJVs in developing countries such as these.

Research objective 2: To theoretically explore and empirically examine strategic objectives of European MNEs when they establish joint ventures with Chinese firms, the content and focus of control they exercise over the joint ventures, and the performance results.

The empirical results will provide an opportunity to test the generalisability of previous findings. This study chooses Sino-European IJVs as the research setting due to two main considerations. The first lies in the increasing interaction between EU and Chinese businesses. The scale and speed of China's economic growth are making it one of Europe's major economic partners. Being one of the European Union's main trading partners – ranking fourth in terms of both imports and exports expressed in value – China has emerged as an indispensable market for any European multinational enterprise. As a leading recipient of foreign direct investment in the world, China benefited from IJVs more than any other nation during the 1990's (Beamish, 1993; United Nations, 1999). EU business, one of the largest foreign investors in China, has used joint ventures frequently when investing in China. Second, a systematic

investigation of Sino-EU IJVs is now extremely promising since these ventures are believed to have passed the initial experimental phase (Hubler and Meschi, 2001). Since China launched its Open Door Policy in 1979, United Kingdom, Germany, and France have persisted in seeking opportunities and already have made significant investment in China (ChinaFDI, 2001). Of the studies that have examined the IJVs in a Chinese context, most have focused on either North American multinationals or other Asian countries, such as Japan, Singapore, Hong Kong (e.g., Child, 1990; Child and Lu, 1996; Child and Yan, 1999; Yan and Gray, 1994, 2001; Hu and Chen, 1993; Daniels *et al*, 1985; Ding, 1997; Beamish, 1993; Wang *et al*, 1999; Isobe *et al*, 2000; Si and Hitt, 2004). A few scholars who have studied Sino-European joint ventures have examined them from the stock reaction perspective (e.g., Hubler and Meschi, 2001; Meschi and Cheng, 2002).

Research objective 3: To examine the relationship between strategic objectives, IJV control and performance.

No existing research evidence shows links between partners' strategic objectives and IJV control. However, it is reasonable to believe that the objectives have considerable importance on choices regarding extent and focus of control. Little research has been directed at the questions related to what controls are and should be used in IJVs. Geringer and Hebert (1989) argue that the IJV managers receive little guidance about when and how to use control. In addition, previous research on the

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relationship between IJV control and performance has produced inconclusive results (Beamish, 1993; Calantone and Zhao, 2000; Chalos and O'Connor, 1998; Killing, 1983; Kogut, 1988b; Lecraw, 1984; Yan and Gray, 1994). Inconsistencies in the empirical findings suggest that further research is needed to understand the relationship between control and joint venture performance. With respect to the theoretical issues of interest here, little research has been reported yet on the relationships between strategic objectives and performance in IJVs. Foreign partners' control over joint ventures is greatly influenced by their strategic intentions in developing countries. It is instructive from both a theoretical and practical perspective to explore how strategic intention is related to performance in IJV. The research findings of this study will be beneficial for those expatriate managing directors working in international joint ventures. It also will be useful for firms that are going to establish joint ventures in developing countries, and will provide some insights into the formulation of their control strategy.

1.5. Research Questions

This research centers on the exploration of questions as below:

1).   What are the strategic objectives of European MNEs for engaging in joint ventures in the People's Republic of China?

2).   To what extent has the performance of the joint venture met the foreign partners' expectations?

3).   Through establishing Sino-European IJVs, do any strategic objectives outperform others? In other words, is joint venture more suitable to achieve certain strategic objectives than others?

4).   Regarding the specific strategic objective, to what extent does the control exercised by the foreign partner over joint venture affect the attainment of the foreign parents' objective?

5).   To what extent do strategic objectives, parent control, and IJV overall performance relate to each other?

6).   Is there a relationship between parent companies' satisfaction with objective achievement and parent's assessment on IJV overall performance?

Specifically, the first three research questions will attempt to fulfill research objective 1. The fourth research question will address research objective 2. And research objective 3 will be investigated by research questions 5 and 6.

1.6.   Organisation of This Study

Chapter One begins with a historical introduction about Chinese FDI. Then the objectives of study and research questions are presented. The last section presents the organisation of this thesis.

Chapter Two contains an overall literature review and is divided into seven sections. The first and last sections are chapter introduction and summary respectively. The second section briefly reviews relevant literature on international joint ventures. Section three discusses the strategic objectives of international joint ventures. Based upon transaction cost, market power, and organisational learning theory, three categories of strategic objectives are identified. Section four deals with the conceptualisation of parent control, and distinguishes three dimensions of IJV control. Section five evaluates the IJV performance. The differences between subjective and objective measurement, from parent or joint venture perspective to evaluate joint venture performance are addressed. The sixth section examines the relationship between management control and performance. The superiority of dominant parent or shared management joint ventures is discussed.

Based on the literature review in Chapter Two, Chapter Three proposes the research framework and several testable hypotheses. Chapter Four outlines the methodology employed in the study. The general design of the study is given, and the target population is defined. Data collection procedures and the selection of respondents are clarified. The measurements for dependent and independent variables are described. The data analysis technique is also discussed. Chapter Five presents the analysis and findings of this study. In the final chapter, implications and contribution are discussed. The potential limitations of this study are given and future research directions are suggested.

1.7. Chapter Summary

IJVs have increased significantly in popularity in recent years as firms find themselves under more pressure to expand internationally, to be competitive. A significant development in the 1980s that contributed to the trend of global integration of international business was the opening up of traditionally centrally planned economies, most notably China, Eastern European countries and the former Soviet Union. These economies have presented foreign investors with both business opportunities and challenges.

Taking Sino-European international joint ventures as a research setting, this study will empirically explore the relationship between IJV strategic objectives, control and performance in developing countries in general, and in China in particular. The presented research framework incorporates the three constructs for further theoretical as well as empirical investigation.

Chapter Two now examines the extant literature on international joint ventures.

Chapter 2.   LITERATURE REVIEW

2.1.   Chapter Introduction

This chapter reviews previous studies on joint ventures, particularly the relevant research on the key variables and their relationships contained in the theoretical framework in figure 3.1. The chapter is divided into the following sections: 1) introduction to international joint ventures; 2) IJVs strategic objectives, which, based upon three main theoretical strands, are categorised as efficiency-seeking, market-developing, and knowledge-acquiring objectives; 3) parent control, where management control is conceptualised, and two different levels of control are identified: strategic and operational control; 4) IJV performance, where subjective and objective measurement, as well as from parent or joint venture perspective are compared; 5) relationship between control and performance, where two main streams of arguments about this relationship are presented. The final section is a summary of the chapter.

2.2.   International Joint Ventures (IJVs)

The definition of a joint venture adopted in this paper is essentially that of Mariti and Smiley (1983), which defines a joint venture as: an agreement in which

two independent legal firms establish a third independent legal firm. Furthermore, the definition of the term international in the context of joint ventures as used in this paper is based on that of Geringer and Hebert (1991), i.e. at least one parent firm has their headquarters outside the JVs country of operation or there is a significant level of operational activity taking place in more than one country.

The reality of global competition today is that few companies possess all of the competitive advantages that would enable them to be successful internationally. For firms in industrial countries, prospects for future growth are increasingly seen as being disproportionately in developing parts of the world, not in more familiar markets in the developed nations. But, for a variety of reasons, doing business in developing countries is viewed as being considerably riskier, to be approached with much more caution (Buckley and Casson, 1996). Similarly, developing country markets are becoming much more open to international competition, providing both opportunities and dangers for domestic companies. To meet these challenges, managements are attempting to position their firms to become more competitive. Thus from the perspectives of both industrial and developing country companies, the evolving global market calls for change from past competitive practices. For this reason, many company managements now attempt to complement their firms' strengths through alliances with other companies. These alliances, many of which are JVs, represent a complicated process of identifying one's own strengths and weaknesses, setting forth clear strategic directions, and then endeavoring to match these directions with those of another company (Harrigan, 1988a).

Since 1980s, the employment of the joint venture both locally and internationally has increased remarkably (Buckley and Casson, 1996; Harrigan, 1988b; Hergert and Morris, 1988; Lyles and Baird, 1994). JVs have vital strategic importance for international business and their significance is growing (Beamish and Banks, 1987; Harrigan, 1987c; Buckley and Casson, 1996). The emergence of an intense competitive environment changes both the motivation for and the pattern of foreign direct investments. It also creates the need for more flexible production and marketing systems, the reorganisation and restructuring of value-added activities, and a new form of organisation. The value-creating benefits of joint ventures are many. For instance, JVs are referred to as strategic weapons for competing within an organisation's core markets and technologies (Harrigan, 1988); a means to cope with technological challenges (Isobe *et al*, 2000), and environmental uncertainty (Mjoen and Tallman, 1997); to achieve economies of scale (Killing, 1983); to access additional skills and resources (Mjoen and Tallman, 1997); to lower political and business risks (Merchant, 2000); to facilitate organisational learning or knowledge acquisition (Berrell *et al*, 2002; Makhija and Ganesh, 1997); and to lower costs of labour, transportation, overhead, and taxes (Datta and Rasheed, 1993).

Full acquisition is preferred when the opportunity cost of delaying entry is high (e.g. in high growth industries). However, full acquisition dulls the motivation of the acquired management team and increases management costs. Child and Faulkner (1998) contend that a partial acquisition (JV) is desirable when large differences in corporate culture exist. While acquisitions are generally the favoured mode of

expansion into developed country markets, cooperative forms such as joint ventures tend to be the most prevalent in emerging economies (Harrigan, 1988a). This is partly a result of host-government preferences for local firms to share in the ownership of foreign-funded ventures in the expectation that such participation will increase their opportunities to acquire new technology, management skills, and other expertise. It also reflects a frequently found preference among foreign investing companies to reduce their exposure to risk, and to seek the assistance of a local partner in navigating through an unfamiliar environment. Similarly, Kogut (1988b) considers that joint ventures are formed to achieve synergy through combining complementary partners. International joint ventures are formed to improve a firm's competitive positioning within the global marketplace. In order to accomplish this objective, parent firms attempt to create synergies through combining resources, capabilities and strengths (Dymsza, 1988). Local partners, particularly those from developing countries, benefit from the technological know-how, management skills, and capital brought in by their foreign partners (Kim, 1996). MNEs depend on local partners' knowledge and networks in the host country to reduce risks and increase revenue.

Beamish (1985) summarises the differences between JVs in developing and developed countries according to eight characteristics: reasons for creating the JV; frequency of association with government partners; ownership level; ownership-control relationship; control-performance relationship; number of autonomously managed ventures; instability; and performance. However, this study was conducted before the real proliferation of JV in developing countries, especially in the former

centrally planned economies. After examining the characteristics of JVs in China, he added four additional characteristics (Beamish, 1993): origin of investment; number of proposed joint ventures actually enacted; use of JVs versus other modes of involvement; and use of JVs with a predetermined duration. He argues that IJVs formed between developed and developing country partners demonstrate characteristics that contrast with those in developed country IJVs.

Joint ventures between domestic companies in developing countries and foreign companies have become a popular means for both managements to satisfy their objectives. They offer an opportunity for each partner to benefit significantly from the comparative advantages of the other. Local partners bring knowledge of the domestic market; familiarity with government bureaucracies and regulations; understanding of local labour markets; and possibly, existing manufacturing facilities (Yang and Lee, 2002). Foreign partners can offer advanced process and product technologies, management know-how, and access to export markets. For either side, the possibility of joining with another company in the new venture lowers capital requirements relative to going it alone (Yan and Gray, 1992). This highly complementary nature of skills, capabilities and resources possessed by the partners suggests that neither partner is fully capable of managing the joint venture independently of the other.

Despite their potential, IJVs have earned a notorious reputation of being the Trojan horses of business transactions in that they provide an opportunity for internal

attack and parental disputes (Beamish, 1985; Hennart *et al*, 1999; Janger, 1980; Killing, 1983; Lewis, 1992; Urban and Vendemini, 1992). IJV failure has often been attributed to the complexities of managing the alliance (Datta and Rasheed, 1993). IJVs lessen individual control, and can be slow in their responsiveness to environmental dynamics due to the complexity of joint management (Killing, 1983). Partner firms run the risk of creating new competitors, damaging their original firm's reputation, and eroding their technological base (Gomes-Casseres, 1989).

Reported joint venture failure rates range from 36 to 70 percent (Geringer and Hebert, 1991; Killing, 1983, Levine and Bryne, 1986). Groot and Merchant (2000) argue that IJV failure rates are probably even higher than are those for domestic JVs because IJVs generally face greater challenges. For example, many IJV partners must monitor operations in settings with which they have little familiarity (e.g. markets, distribution systems, and legal systems); they must often cope with significant geographical separation and time differences; and they must bridge cultural boundaries.

Harrigan (1988a) summarises eight reasons why joint ventures failed: 1) partners could not get along; 2) their markets disappeared; 3) managers from disparate partners within the venture could not work together; 4) managers within the venture could not work with owners' managers; 5) what was thought to be good technology from one partner did not prove to be as good as was expected; 6) owners that were to contribute information or resources could not get their personnel down the line to

deliver what had been promised; 7) partners simply reneged on their promises to deliver on their part of the agreement; or 8) other reasons destroyed partner's cooperative spirits (p.181).

The increasing use and strategic importance of joint venturing, as well as the unfamiliar complexity, point to the need to know more about how to effectively implement this cooperative strategy option.

2.3.   IJV Strategic Objectives

2.3.1.   Previous Studies on IJV Strategic Objectives

International joint ventures have been characterised as mixed motive games between their parents who simultaneously cooperate and compete (Hamel, 1991; Lax and Sebenius, 1986). Foreign parents frequently choose the IJV vehicle not because they believe it will be easily managed, but because they perceive it will better serve a wider array of their objectives (Shenkar, 1990). Partner strategic objectives offer a logical starting point in analyzing the interest of potential creators of joint ventures, as it is these objectives that bring the partner together. They also offer a means of accounting for how the joint venture fits into each partner's long-term strategies.

On the one hand, the overall strategic objectives of IJV parents are the pooling of resources to create value in a way that each of the parents could not achieve by acting alone (Borys and Jemison, 1989). Value creation refers to the process of

combining the capabilities and resources of the partners to perform a joint task that has the potential to create monetary or other benefits for the partners. Although the perceived value to each of the parents need not be the same, each joint venture parent must gain some benefits for a joint venture to be the preferred option (Porter and Fuller, 1986). On the other hand, they compete with each other to achieve their own agenda, as dictated by the law of opportunism (Kogut, 1988a).

A variety of reasons have been suggested to explain foreign parents' motives for forming IJVs (Contractor and Lorange, 1988; Daniels *et al*, 1985; Glaister and Buckley, 1996; Harrigan, 1986; Hennart, 1991; Kogut, 1988b; Lin, 1997; Yang and Lee, 2002; Young *et al*, 1989; Zhang, 1997). Regarding the issue of a firm strategic objective for forming an IJV, Friedmann and Kalmanoff (1966) pointed out in their pioneering work that economic benefits are likely to be the major motivation for a firm entering a joint venture.

Kogut (1988b) summarised the motivations for forming a joint venture under three considerations: transaction costs which deal in particular with situations where there would be small number bargaining, high asset specificity and high uncertainty over specifying and monitoring performance; strategic behaviour which addresses how a joint venture may enable competitive advantage to be developed in the joint venture that had escaped each of the partners operating alone; and knowledge transfer that depends upon the setting up of a joint venture in order to transfer tacit knowledge. The three motives for joint ventures identified by Kogut are claimed by him to be

quite distinct although sometimes overlapping. In any specific case, a firm is likely to have multiple motives for an alliance.

> *Transaction cost analyses joint ventures as an efficient solution to the hazards of economic transactions, strategic behaviour places joint ventures in the context of competitive rivalry and collusive agreements to enhance market power. Finally transfer of organisational skills views joint ventures as a vehicle by which organisational knowledge is exchanged and imitated ...* (Kogut, 1988b: 323)

Harrigan (1986) grouped the reasons for engaging in IJVs under three broad categories: internal; competitive; and strategic action. Within each of the three broad categories, she enumerated more specific actions to explain why firms opt for IJVs. Internal reasons refer to: spreading costs and risks; safeguarding resources, which cannot be obtained via the market; improving access to financial resources; benefits of economies of scale and advantages of size; access to new technologies and customers; access to innovative managerial practices; encouraging entrepreneurial employees. Competitive reasons refer to: influencing structural evolution of the industry; pre-empting competitors; defensive response to blurring industry boundaries and globalisation; creation of stronger competitive units. Strategic actions refer to: creation and exploitation of synergies; transfer of technologies and skills; diversification.

Contractor and Lorange (1988) provided an objectives/benefits approach to address a firm's strategic objectives for setting up an IJV. They indicated that IJV formation can generate a variety of benefits through achieving at least seven overlapping objectives. These objectives are: 1) risk reduction; 2) economies of scale and production rationalisation; 3) exchanges of complementary technologies; 4) co-opting or blocking competition; 5) overcoming government-mandated trade or investment barriers; 6) facilitating initial international expansion of inexperienced firms; and 7) vertical quasi-integration advantages of linking the complementary contributions of the partners in a value chain.

By examining the motives and fundamental objectives of strategic alliances between Canadian firms and Asia newly industrialised countries (Hong Kong, Singapore, South Korea, and Taiwan), Hung (1992) found the most important motive of Canadian partners is to gain access to local market. Other motives which have some importance are to share business risk, overcome trade barriers, minimise capital investment, and share regional markets. These findings support the contention that many Western companies enter into strategic alliances to avoid investment, and are more interested in reducing the costs and risks of entering new markets (Hamel *et al*, 1989).

From the country of origin perspective, the strategic objectives of developing and developed countries contain both similarities and variances. By examining 94 strategic alliances (74 percent are IJVs) between UK firms and partners in Western

Europe, the United States and Japan, Glaister and Buckley (1996) found the most important strategic objectives of foreign partners are: the desire to gain a presence in new markets; to enable faster entry to the market; to facilitate international expansion. The result indicates that the often concerned risk reduction motivation appears not to be particularly important. A similar survey had been conducted by Glaister and Wang (1993) on twenty-one Sino-UK joint ventures. The most important strategic factor here was to gain faster entry to the market, followed by the use of the joint venture to facilitate international expansion, to conform to host government policy. Their findings reveal that the British firms are more concerned about market-related factors when they invest in China. The main motivating factor for joint venture formation is faster entry to the market. Joint ventures allow British firms access to largely intangible inputs which non-domestic firms would find difficult to develop.

As global competition dictates that MNEs diversify not only geographically in order to accrue the location advantages such as inexpensive labour and access to raw materials, but also from an ownership perspective to gain entry into historically blocked markets deemed critical to longer term growth objectives, attention is being turned to emerging country markets (Kashlak, 1998). In a survey of US firms investing in China, Daniels *et al* (1985) found that the great majority wanted to establish a long-run position in China as a potentially strong growth market and as a base within the Asian region. They did not see short-term profit as a major objective and even less emphasis was placed on low-cost sourcing. International joint ventures fit into parent company's overall strategy to increase its international market share.

Consequently, the company does not push for overnight growth in profits. Partner firms from Western Europe, Japan, and the USA all tended to include in their top three objectives and expectations that the cooperation would gain them a strategic position in China against their competitors, give them access to the Chinese market, and afford a good opportunity for long-term profit.

By contrast, many partners from Hong Kong have looked for more immediate profits for their Chinese ventures through low-cost unskilled labour and land which had become a scarce resource in their own territories. Partners from Taiwan and Singapore also generally conformed to this pattern on priority objectives (Child *et al*, 1990; Luo, 1998; Rajan and Pangarkar, 2000; Wang *et al*, 1999). In a survey of sixty Sino-foreign joint ventures, Lin (1997) found that while Japan, the United States, and other Western investors pursue their market expansion strategy in China by investing in capital-intensive, high-technology, import substitution projects, investors from Hong Kong tend to favour the resource-seeking strategy and concentrate mainly on export-oriented, processing/ assembling operations. The Hong Kong partners are more concerned with 1) using cheaper production factors, 2) seeking favourable policies, and 3) exploiting Chinese market.

Through a case study on China Motorola, Yang and Lee (2002) offer some further insights. While the primary objective for multinational corporations to invest in China is to overcome potential trade barriers with local production plants so as to open China's huge market, their Chinese partners seek foreign investment for a joint

venture business so that their MNE partners will bring in the production technologies which normally are in relatively more advanced stages and thus to improve the local plants' R&D capability through system installation, maintenance, and employee training programmes. Another recognised objective for those multinational corporations which expand their current production techniques into their newly-built Chinese facilities is to prolong the competitiveness of existing production technology, while reducing the financial risks through diversifying their production facilities in worldwide locations. Such efforts are just what their Chinese partners looking for global allies (who have sufficient financial resources) in worldwide competition expect.

In another recent in-depth study of Sino-British joint ventures, Yan and Child (2002) find that for a statistically significant 18 out of 20 IJVs, the British partners prioritise "market-related" strategic objectives in running IJVs, focusing particularly on the establishment of a strategic position in China vis-à-vis competitors, the acquisition of local market knowledge and the understanding of local management practices. Many British respondents suggest that running joint ventures in China is one method of developing their global business portfolio.

2.3.2. An Integrative Approach to Study IJV Strategic Objectives

One of the purposes of this paper is to explore the strategic objectives of foreign firms which adopt joint ventures to enter Chinese market. For this purpose,

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based upon Kogut's (1988b) conceptual framework, this study integrates three main theories: market power, transaction costs economics, and organisational learning theory.

Market power theory addresses IJV formation from a market development and benefits perspective, whereas transaction costs theory underpins the efficiency and costs saving perspective. Market power posits that firms try to maximise profits through improving market power. Transaction costs theory posits that firms choose the mode which can minimise the sum of production and transaction costs. The establishment of a joint venture may stem from market motivations and in fact, may present a more costly, but more profitable alternative to other choices. The organisational learning perspective posits that a firm seeks knowledge through IJVs that it considers lacking but vital for the fulfillment of its strategic objectives. While market power and transaction costs provide economic reasons for joint venture, organisational learning offers an explanation outside of economic rationality. Therefore, the three theories are not competing explanations of international joint ventures, but address the same issue from different perspectives. Together, they serve as the theoretical foundation for the hypotheses development which follows.

The choice of the integrated approach is essential since the integrative approach permits us to obtain the most realistic description (Andersen, 1997). Parkhe (1993) argues that a generally accepted and unifying theory in IJV studies is still largely absent. Using both transaction costs and the resource-based view to examine

the rationale for IJV formation, Glaister (2004) recently provided empirical evidence that together both perspectives can provide a more comprehensive understanding of the benefits of international joint ventures. In addition, the real Chinese business environment is so complicated that no single approach can capture all the key factors that affect the decision of entry (Child and Faulkner, 1998). These three theories collectively offer greater explanatory power than any single one in describing the underlying strategic objectives of MNEs' entry into China.

Dunning's (1988, 1990) eclectic paradigm classified FDI motivations into four types: resource seeking, market seeking, efficiency seeking, and strategic asset seeking. Resource-seeking investments are made to capitalise on natural and human resources present in the country of investment. Market-seeking investments are aimed at exploiting the host country's market. Sequential investments made by already established affiliates aimed at increasing the efficiency of their activities by integrating assets, production and markets the better to exploit economies of scale and scope are called efficiency-seeking investments. Finally, strategic asset-seeking investment seeks to acquire resources and capabilities that an investing firm believes will sustain or advance its core competences in regional or global markets. Using Dunning's classification as a basis, this study concentrates on three categories strategic objectives of foreign parents in forming IJVs: market-developing (similar to Dunning's market seeking), efficiency-seeking, and knowledge-acquiring (similar to Dunning's strategic asset seeking). Dunning's fourth category (resource seeking) relates to a traditional motive for IJV investment and, although not a primary category

of interest in this research, given the three theoretical strands which form the theoretical framework, is nevertheless represented in the survey through specific questions in the questionnaire.

As far as Sino-European IJVs are concerned in this study, the objectives in the three categories are chiefly incorporated from four influential empirical studies on Sino-foreign IJVs (see Table 2-1). From a very practical perspective, Harrigan (1987) offered a highly comprehensive list of IJV motivations at an early stage of international joint venture studies. Contractor and Lorange (1988) also provided a conceptual masterpiece in terms of IJV strategic objectives. Their works were referred to in numerous IJV studies (e.g. Beamish, 1993; Buckley and Casson, 1996; Ingmar and Fan, 2002; Mjoen and Tallman, 1997; Petrovic and Kakabadse, 2003). Glaister and Buckley (1996) thoroughly examined IJV strategic objectives of international joint ventures where both IJV partners are from developed countries. Yan and Child (2002) recently investigated strategic objectives formed in IJVs between developing and developed countries, especially, Chinese and Western partners. The objectives in each category are somewhat overlapped. They are refined and incorporated for further empirical examination.

Concerning the market-developing category, several objectives have been investigated in the four studies, such as to overcome trade barriers, preempt competitors, faster entry to market, overcoming government mandated trade, co-opting or blocking competition, etc. After integrating these objectives, three market-

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developing objectives are generated which will be empirically examined in this study: 1) entering market fast, 2) managing competition, and 3) overcoming governmental barriers.

Similarly, in the efficiency-seeking category, many items are stated, such as obtain financing and resources, share cost and risk, create and exploit synergies, spread risk of a large project, gain access to a new market, gain a strategic position in China, etc. These have been integrated into three efficiency-seeking objectives, which will be examined in this study: 1) exploring global synergy, 2) spreading financial risk, 3) avoiding political uncertainty.

On the knowledge-acquiring aspect, the four studies examined diverse objectives: to learn how to do business in China, technology exchanges, market knowledge, create innovative managerial practices, and perform technology or skills transfer. It is noted that some strategic objectives for establishing IJVs in developed countries might not be as applicable in the emerging countries context. For example, R&D IJV prevails in developed countries. But the R&D activities of MNEs are primarily undertaken by headquarters and only mature and widely distributed products and technologies are transferred to the developing country (Shama, 1995). Hence, R&D usually is not considered as a motivation when MNEs set up joint ventures in developing countries. This study identifies two learning objectives for foreign partners in IJVs: 1) acquiring country-specific knowledge, 2) acquiring local market knowledge.

The following three sections illustrate these theories and strategic objectives in detail.

Table 2.1 Empirical Studies on IJV Strategic Objectives

Strategic Objectives	Harrigan (1987)	Contractor and Lorange (1988)	Glaister and Buckley (1996)	Yan and Child (2002)
Market-Developing	Overcome trade barriers	Overcoming government mandated trade or investment barriers	Faster entry to market	Establishing strong business presence in China
	Preempt competitors	Co-opting or blocking competition	Compete against common competitor	
	Gain access to global network		Conform to foreign government policy	
Efficiency-Seeking	Obtain financing and resources	Economies of scale and/or rationalisation vertical quasi-integration advantages	Spread risk of large project	Gaining a strategic position in China
	Share cost and risk	Risk reduction	Gain access in new market	
	Create and exploit synergies			
Knowledge-Acquiring	Perform technology or skills transfer	Facilitating initial international expansion of inexperienced firms	Exchange of complementary technology	
	Create innovative managerial practices	Technology exchanges	Market knowledge	Learn how to do business in China

2.3.3. Market Power Theory and IJV Market-Developing Objectives

International market power theory offers several insights into cooperative strategy, one of which is that greater market power, with consequently enhanced returns, can be attained through collabourating. It regards joint ventures as a form of defensive investment by which firms deter entry through preempting competition, and enhancing market power in the context of competitive rivalry and collusive agreement (Kogut, 1988b).

Hymer (1972) applies market power theory to the study of cooperative strategy when distinguishing offensive from defensive coalitions. Offensive coalitions are intended to develop firms' competitive advantages and strengthen their position by diminishing other competitors' market share or by raising their production and/or distribution costs. Porter and Fuller (1986) support Hymer's argument by demonstrating that offensive coalitions can have a negative effect by reducing the partners' adaptability in the long run. Defensive coalitions, on the other hand, are formed by firms to construct entry barriers which are intended to secure their position and stabilise the industry so as to increase their profitability. These may also be sought by firms that have a relatively weak position in the market in order to defend themselves against a dominant player. Moreover, cooperation can emerge when partners have different intentions simultaneously.

Child and Faulkner (1998) argue that firms can improve their competitive success by securing stronger positions in their markets. International marketing management literature also emphasizes that firms seek to maximise long-term profits through their competitive position vis-à-vis rivals (Terpstra and Sarathy, 1994). One way firms attempt to accomplish this is by aggressively gaining access to new markets and expanding market share in international markets. Furthermore, immediate access to a large market can be especially important since product life cycles become increasingly short and the rate of technological innovation accelerates. Expected sales are dependent on both market size and the length of time over which the product is sold in these markets (Hladik, 1988). Joint ventures become an important means of attaining an initial presence in new product markets that may be of long-term strategic importance to the firm.

Linking with host-nation firms to facilitate access to new markets is a major reason for firms to form IJVs (Dunning, 1988a; Harrigan, 1985). Partnerships with horizontally related competitors offer the potential for many offensive and defensive strategic benefits (Kogut, 1988b). Recent empirical studies reveal that the dominant motive for Western corporations to invest in China has been the prospect of gaining access to what they perceived as a huge domestic market (Calantone and Zhao, 2000; Griffith *et al*, 1998; Luo, 2001; Zhang, 1997). Most Western investors have taken a long-term view that an early presence in China's market might lay the basis for a

substantial market share and at the same time prevent international rivals squeezing them out.

Buckley and Casson (1998) argued that even if a company has sufficient funds to approach an opportunity through organic development, this may not lead to substantial market presence fast enough to take successful advantage of the opportunity. Joint ventures are a fast means of achieving market presence to meet an opportunity, if the partners each have strong resources and competencies, but acting alone is insufficient to achieve critical mass. Internal development would take much longer, and acquisition has the disadvantage of the possible demotivating effect of the subsidiary relationship, and the higher level of investment required.

In a survey of sixty-seven Sino-American IJVs in the sectors of electronics and fast-moving consumer goods, Zhang (1997) found the foreign parent companies were attracted by the Chinese market, the opportunity for good long-term profits, gaining strategic position in China vis-à-vis competitors, and establishing strong business credibility in China. These were the priority goals of foreign managers in the IJVs. He concluded that keeping and enlarging the market share is the primary target for foreign parent companies. In other words, market development was the essential concern of the sample joint ventures.

From the first day China opened the door for foreign investors, it clearly declared that not only was foreign capital welcome, advanced technology and

management know-how were expected. The best way to access such knowledge was establishing equity joint ventures and cooperative joint ventures, which were the major legal forms if foreign companies wanted to enter Chinese market. Even nowadays, in some industries, such as publication, telecommunication, and insurance, wholly-owned foreign subsidiary is not allowed.

2.3.3.1.   Fast Market Entry

In the economic world of the 21st century, first-mover advantages became paramount, and often the conclusion of an alliance between a technologically strong company with new products, and a company with strong market access was the only way to take advantage of an opportunity in time. Timing is an important part of effective joint-strategy formulation in situations where environments change rapidly, because firms that move first often can gain access to better partners, which in turn can give them a competitive advantage that late entrants could not capture as easily (Peng and Heath, 1996). How long a market opportunity may be expected to remain attractive, and the windows of opportunity in some markets are often so short-lived that firms use joint ventures to leapfrog into these growing markets to exploit them before their lustre fades (Deng, 2003).

Generally speaking, it is an expensive, difficult, and time-consuming approach to build up a global organisation and a significant international competitive presence for those inexperienced medium- or small-sized companies (Buckley and Casson,

1998; Contractor and Lorange, 1988). Joint ventures offer significant time saving in this respect. Even though some firms consider establishing their own market position, this may simply take too long to be viable. Acquisition abroad is acknowledged as another strategic option for international expansion, but it can often be hard to find good acquisition objects at realistic price levels.

As the early entrants in their markets, the pioneer firms are building customer loyalty in order to defend themselves against new competitors. An early mover, by definition, has a quasi monopoly before competition enters and is in a position to capture higher economic rents than would be possible in a competitive marketplace (Von Hippel, 1988). After entry, the early mover may gain or maintain advantages by pre-empting rivals in riding down learning curves, acquiring scarce assets like locally available input factors and geographic space and developing a unique local buyer network (Lieberman and Montgomery, 1988). This kind of partnership is also a way of ensuring that potential entrants do not team up with more dangerous opponents.

To establish an operational presence in a country, a firm must access local resources as a means of overcoming market uncertainties (Stopford and Wells, 1972). IJVs provide low-cost, fast access to new markets by "borrowing" a partner's already-in-place local infrastructure (Doz, Prahalad, and Hamel, 1990). This infrastructure includes sales forces, local plants, market intelligence, and the marketing presence necessary to understand and serve local markets. In addition, local partners also are

critically valuable in markets where important customers are state-owned enterprises or governments which favour national suppliers.

Recent studies of entry strategies in China have shown even stronger and more consistent evidence of early mover advantages among foreign entrants. These studies showed that early entrants (foreign investors) in China attained higher performance in profitability, sales growth, and local competitive position, suggesting that there are noticeable early mover advantages in an emerging economic region (Isobe *et al*, 2000; Luo, 1998; Luo and Peng, 1998; Pan and Chi, 1999, Pan *et al*, 1999; Wilson and Brennan, 2003; Rahman and. Bhattacharyya, 2003). For example, from an empirical investigation of 14,466 foreign invested firms in China, Pan *et al* (1999) found that early entrants have significantly higher market shares and profitability than later entries. This finding is consistent with past research on U.S. domestic markets (e.g. Robinson *et al*, 1992). They found that equity joint ventures have higher market shares and profitability than either wholly owned enterprises or contractual joint ventures. Rahman and Bhattacharyya (2003) also contended that emerging markets have certain distinctive attributes that offer positional advantages to a first mover.

Several possible factors may allow early movers to gain superior market performance in emerging economic regions. First, an early entrant may face less competition, which makes it easy for it to develop a monopoly in the local markets. In emerging regions, most local incumbents lack the strong capabilities and resources necessary to compete directly with foreign entrants. Also, potential foreign entrants

tend to adopt a wait-and-see strategy because there is a high degree of uncertainty in the local markets. Second, early entrants may establish brand loyalty more easily than late entrants in emerging economic regions, where dominant brands and design are absent. Finally, local governments in these regions often treat early foreign entrants more favourably. Where such differential government treatment is critical for success, foreign firms may have motivation to move sooner rather that later. For example, since it entered China in 1985, AT&T has built a good reputation and powerful brand image. It also has a good relationship with China's national telecommunication industry and has thus built high entry barriers against its competitors. Being the first entrant gave AT&T the opportunity to capitalise on local resources and manpower and establish a strong customer base (Luo, 2000).

A partnership with a local firm with superior marketing competence enables a foreign company to quickly establish its market position, organisational image, and product reputation in the local market. This also helps the foreign company increase profitability, reduce uncertainty, and boost its competitive edge in the host country. Luo (1995) observed the importance of such marketing competence, particularly skills in direct marketing, to the market performance of IJVs. One of the well-established and well-reputed Chinese auto firms, for example, Shanghai Automotive Industry Corp. has utilised its marketing expertise and resources to help its joint venture, Shanghai Volkswagen AG, quickly establish distribution channels, after-sales service centers, and high-quality image recognition nationwide. Today, it is the largest

foreign-invested enterprise in China with regard to total sales, and has a market share of more than 50% of domestically manufactured passenger cars in China (Luo, 1995).

Most emerging countries open up their domestic market on a gradual basis. On the one hand, the host country government selects and approves the foreign firms to come into their markets (Peng and Heath, 1996). On the other hand, foreign firms have to become confident that the timing is right for them to be successful there. In the case of China, most foreign investors in the early 1980s had a high degree of skepticism about investing in China. Those foreign investors who entered China at the time showed trust in the open-door policy of the Chinese government. In return, these early entrants were rewarded with incentives and concessions in terms of taxes, land use, supplies of energy and materials, and market access that were not readily available to late entrants (Beamish, 1993; Shenkar, 1990).

2.3.3.2. Managing Competition

Kogut (1988b) argues that motivated by strategic attempts to deter competitive market entry and improve oligopoly profit potential, MNEs establish IJVs in less developed countries in order to extend their home country into a new location at lower cost and with less interference than a wholly-owned subsidiary would generate. Contractor and Lorange (1988) also point out that the joint ventures can be used to pre-empt suppliers or customers from integrating in a manner unfavourable to the firm. Joint ventures also can blunt the abilities of ongoing firms to retaliate by blinding

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potential enemies to the firm as allies. Thus, firms can gain new competitive capabilities or enter new markets more quickly; create market power; or stake out leadership positions in emerging industries.

Because one of the major objectives of foreign investors in the Chinese market is to preempt market opportunities and business potential (Beamish, 1993), a local partner's competitive advantages are key assets. In China, competitive advantages are often represented by a local partner's industrial and business background, market position, and established marketing and distribution networks (Luo, 1997). Competitive advantages also enable the firm to influence some industry-wide restrictions on output, increase bargaining power, and offer the advantages of economies of scale (Luo, 1995). For some companies, China may be a critical market because production volumes achievable in China may be large enough to affect global competition in that sector, such as television production. In this case, an MNE may enter China in order to deny competitors unchallenged access to these large production volumes, which are seen as a competitive weapon affecting the MNE's ability to leverage business elsewhere.

In the interviews with management personnel from eleven U.S. firms which participated in the decision to establish joint ventures, Daniels *et al* (1985) found a pervasive feeling among respondents that they could not afford to let competitors preempt them in the Chinese market. One respondent mentioned, for example, that if his Japanese competitors were to attain leadership in China, they might gain cost

reductions which could undercut prices in the U.S. or third country markets. These firms were willing to sacrifice immediate profits from the joint ventures in exchange for the hope that the ventures would offer them a "foot in the door", hence losses in the short term would translate into long-term profits.

Initial investment in a host country can be a platform for obtaining rights to future opportunities. For instance, the door to foreign investors was opened gradually in China. The Chinese government carefully planned the time when a given product sector would open to foreign investors, the ceiling on the number and amount of FDI in the sector, and the set of state firms designated as potential local partners. Chrysler, for example, was not allowed to manufacture minivans in China in 1995 because after it granted the contract to Mercedes, the Chinese government had made the decision not to accept any new major foreign operations in that sector at that time (Business Week, July 31, 1995, p.50). Under such circumstances, MNEs that had not entered already faced the prospect of being shut out and having to wait for future opportunities. Those that had already entered would be able to take advantage of monopolistic opportunities to develop the local market, promote their products, and tap into a variety of strategies to preempt the future entry of competitors.

If some EU firms are able to compete in China, one of the largest markets in the world, this will boost their global competitiveness in relation to that of their rivals. Moreover, a strong Sino-EU relationship may help create a new balance of power in the region. For example, the need to avoid total economic dominance by the Japanese

in the electronics industry was a strategic consideration taken into account by Philips when it was contemplating setting up an industrial base in China (Bruijn and Jia, 1993b). Shanghai Bell, Alcatel's large switching-equipment IJV in China, has a Chinese partner under the Ministry of Post and Telecommunication, who owns and operates China' fixed-line telephone network. Its competitors, including NEC, Siemens, and AT&T, have partners under different ministries that are not involved with and have no regulatory authority over China's fixed-line network. It is no surprise that Shanghai Bell has an advantage selling its equipment to the local operating companies and commands more than 50 percent market share.

2.3.3.3.   Overcoming Government Barriers

An MNE is advised to use the joint venture mode to limit its exposure by reducing its resource commitment and increasing its ability to exit from the market quickly without taking a substantial loss if the environment worsens (Gommes-Casseres, 1990). The cooperative mode is often favoured because local equity partners may have influence on host government policies, along with a vested interest in speaking out against intervention (Beamish and Banks, 1987). Local partners buffer the possibly unfavourable influences of the host government's bargaining power (Gommes-Casseres, 1990) and reduce transaction costs incurred in a turbulent environment (Hennart, 1988). Moreover, local partners can utilise their knowledge, experience, and business networks to cultivate a better relationship with governmental

authorities. Such relationships are particularly critical in emerging economies in which personal connections are often more important than legal standards or impartial justice systems (Luo, 1997). For instance, while the Chinese bureaucracy often inhibits business activities, *guanxi* (interpersonal relationship) facilitates them (Xin and Pearce, 1996).

Fey and Beamish (1999) also find that foreign parents formed Russian IJVs primarily to obtain help in dealing with Russian market, and to be able to enter Russia. Russian bureaucracy was seen as a major obstacle for many foreign firms. Russian firms had often been operating for years in Russia in the industry the foreign parent wanted to enter. Russian partners, with their years invested in building relationships (and sometimes being government-owned), were thought to be of considerable help in navigating through Russian bureaucracy. Obtaining knowledge of the Russian market was also extremely important to many foreign parents. They expressed that such knowledge could be acquired more easily through having a joint venture than by hiring local employees to work at a WOE foreign firm.

Interestingly enough, Luo (2000) found that having a local partner can enable an MNE to develop close connections with government decision makers. Chinese partners are likely to have intimate contacts and connections with critical government officials, and thus they should have a major role in influencing government decisions on firm-level issues. Furthermore, many government officials are concerned about not allowing foreigners to exploit China and thus are more trusting of Chinese

representatives. However, the foreign side may need to work carefully with its partners to help them take a more aggressive stand in influencing government and in developing coherent strategies. This need is primarily due to the Chinese heritage of centralised planning and unchallenged adherence to government policies.

The ability of a firm to select an optimal entry mode into a foreign market, or change entry modes, depends upon constraints present in the host country's legal and political environments. For instance, a firm may wish to enter a host country with a wholly-owned subsidiary to maintain control over the foreign operation and coordinate its activities with those of other foreign subsidiaries. However, the firm may be unable to do so if the local government imposes investment or ownership restrictions on foreign firms. In these instances, entering the market via an IJV may be an acceptable, yet second-best, solution.

Governments in developing countries typically place restrictions on ownership by foreign corporation, production capacity, imports, and price increases (Frazier *et al*, 1989). Under current Chinese laws and practice, government approval of wholly-owned enterprises status may be difficult to obtain. Wholly-owned subsidiaries are completely prohibited in some industries (e.g. newspaper, publishing, broadcasting, television, post and telecommunications), and restricted in others (e.g. public utilities, transport facilities, real estate, trust investment, and leasing) (Xu *et al*, 2004).

Through conducting in-depth field studies on fifteen joint ventures, interviewing many developing government officers, and being supplemented by over one hundred mail questionnaires, Dymsza (1988) conclude that by responding to the foreign investment policies of the host government and taking strategic initiatives to utilise its firm-specific oligopoly advantages, the MNEs find that the joint venture route is the most viable way to overcome government barriers and attain their strategic goals. After summarising twelve Chinese joint venture-related studies, Beamish (1993) also concluded that the major reason given by foreign partners for using joint venture in the PRC was government pressure.

Teagarden (1990) found that the perception of government mandate was the primary motivator for alliance formation in a sample of sixty-seven manufacturing equity and contractual joint ventures in China. Bjoerkman and Lu (1997) report that at a round table discussion with the government of the PRC, 59 percent of participants from international joint ventures concluded that Chinese bureaucracy is one of the most important concerns. Yan and Warner (2002) also argue that IJVs could help MNEs overcome economic and political hurdles, and realise the sales-volume more rapidly than wholly owned subsidiaries. Thus as a result of stringent government control and incentives offered for IJV formation, many MNEs favoured IJV establishment.

On the basis of case studies of sixteen Sino-foreign IJVs, Su (1999) indicates that like many other countries in transition, China is experiencing a dynamic

reconstruction where disorder is an integral part of the society. This consists of an absence or lack of effective laws, increasing problems of business ethics, bureaucracy, and the government's ambiguous role in the economy with respect to enterprises. With regard to joint ventures, the Chinese local authorities too often tend to intervene in management and consider the IJVs as state companies and are therefore under state control. The findings suggest that the sharing of power with a Chinese partner is very useful in the administrative, banking, and social aspects of the business.

2.3.4. Transaction Cost Theory and IJV Efficiency-Seeking Objectives

The transaction cost (TC) theory dates back to Commons (1924) who emphasized the importance of transactions in the economic system (Perrow, 1986). Building on this idea, Coase (1937) postulated that the transactions between parties are appropriate units of analysis for understanding organisational behaviour. According to him, organisations exist because the market is not always the most efficient mechanism for governing transactions. From the perspective of transaction cost theory, efficiency is the major criterion for assessing the appropriateness of a governance structure between organisations conducting economic exchange (Lee *et al*, 1998). As one of the governance choices for two or more prospective partners who contribute complementary resources to achieve mutually beneficial goals, joint venture will be chosen only if it is more efficient than other alternative governance structures.

The most influential statement of transaction cost economies is associated with Williamson (1975, 1985). His argument is that institutional design reflects efforts to minimise the sum of production and transaction costs. Production costs are the costs usually related with the transforming process, namely, the costs of inputs, the degree of scale economies, the efficiency of the productive technology. The transaction costs are less well specified. They embrace all the costs associated with organising the economic system. For example, transaction costs include the costs of:

- Discovering who one wishes to deal with;

- Informing market agents that one wishes to deal and on what terms;

- Conducting negotiations leading up to the bargain;

- Drawing up the contract

- Undertaking the inspection needed to make sure that the terms of the contract are being observed

Transaction costs explain JV formation invoking the logic that, compared to other governance mechanisms, this mechanism best minimises the sum of production and transaction costs (Glaister, 2004; Hennart, 1988; Kogut, 1988b).

Williamson (1985) also identifies three conditions that are subject to high transaction costs: asset specificity (the degree to which assets are dedicated to

transacting with a particular economic partner), uncertainty (which represents the difficulty of predicting and observing cheating), and frequency (which influences whether there is sufficient volume to justify a fixed investment in establishing an organisation solution). When any of these dimensions are significantly present, transaction costs increase (Williamson, 1985). All of these conditions are necessary; none alone are sufficient (Kogut, 1988a).

The significance of the transaction cost theory lies in its ability to link transactions and governance structure in a different approach that minimises transaction costs and maximises efficiency. For transactions to occur efficiently, they must be managed in some way. From the transaction cost economics perspective, there are three broad structural systems for transaction governance: markets, hierarchies and hybrids (Williamson, 1985, 1991). Therefore, under the transaction cost lens, society is seen as a network of transactions mediated either by markets, hierarchies, or hybrids. The choice between make and buy decisions is based on the maximisation of efficiency which is accomplished through the minimisation of the transaction costs. For example, while classic make-or-buy decisions focus on obtaining an item at lowest purchase cost, transaction cost economy is also concerned with additional costs, such as those related to monitoring product quality, consequences of late delivery or strikes, investments in equipment to refine the material, and possible litigation from joint and several market product liability claims. When uncertainties related to such

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concerns or asset specific investments are implied, these transactions are more efficiently governed within the organisation (Child and Faulkner, 1998).

While full internalisation (i.e. merger or acquisition) appears to be desirable under certain conditions, complete movement to the hierarchical end of the continuum is not always necessary or possible. In such cases, the JV form is argued to be the most efficient and effective means of reducing opportunism (Ramanathan *et al*, 1997) or the potential leakage of proprietary knowledge (Mjoen and Tallman, 1997). Kogut (1988b) states that equity joint venture is efficient when two conditions are simultaneously met: 1) markets for the intermediate goods held by each party fail (market failure); 2) acquiring or replicating the assets yielding those goods is more expensive than obtaining a right to their use through a joint venture agreement. Shared equity or asset investment basically holds each party mutually hostage when each potential partner possesses assets that are unique and essential, when government regulation limits the possibility of complete ownership (Buckley and Casson, 1988), or when uncertainty makes it difficult for a partner to determine whether complete internalisation via merger or acquisition is feasible (Ramanathan *et al*, 1997).

Cullen and Johnson (1995) argue that what distinguishes JVs from formal transactional contracts is the fact that their hybrid governance structure provides an additional incentive for venture partners to forbear and shy away from opportunistic behaviour. In a JV, transacting parties contribute both financial and non-financial resources to the venture and in turn, they jointly own and control the venture's asset,

resources, costs, and profits. Through joint ownership, parent firms' performance interacts with the venture's performance. Hence, JVs reduce the transaction costs associated with opportunistic behaviour. Therefore, when transactions are characterised by high asset specificity, uncertainty, and frequency, and when production costs are too high to justify internalisation, JVs are the most efficient forms of governance (Beamish and Bank, 1987; Tsang, 2000).

Powell (1990) notes that "firms pursue cooperative agreements in order to gain fast access to new technologies or new markets, to benefit from economies of scale in joint research and/or production, to tap into sources of know-how located outside the boundaries of the firm, and to share the risks for activities that are beyond the scope of the capabilities of a single organisation" (p.315). Such an argument is consistent with the thrust of the transaction costs literature and recognises that a firm will consider forming a joint venture if the potential benefits exceed the corresponding costs. Hill (1990) also suggests that in international joint ventures, the fundamental idea behind transaction cost is that if the costs of negotiating, monitoring, and enforcing exchange between two parties are lower than both the cost of integrating the function and the marginal economic benefit of the transaction, then the firm will tend to form IJVs.

In the international arena, MNEs establish local operations as a means of serving a foreign market rather than engaging in arms-length transactions with market intermediaries (Isobe et al, 2000). Given the high level of uncertainty in foreign markets, Vanhonacker (1997) argues that wholly-owned subsidiaries would be a

preferred mode of engagement in a foreign market. However, as exemplified by recent statistics in China, joint ventures still are the dominant form of business operation for MNEs in developing countries regardless of whether or not they are required by a host country as a condition for entry. Beamish and Banks (1987) resolve this contradiction between theory and empirical observation by offering a sound argument for IJVs. They (1987) argue that IJVs that conform to certain preconditions and structural arrangements can be more attractive than wholly-owned subsidiaries because of the uncertainty reduction, cost reduction, and revenue enhancement for the multinational enterprises. These rents come from the potential synergy effects of combining two organisations.

Taking the transaction cost approach, Hennart (1991) lists the arguments which most often explain the creation of international joint ventures: firms are looking for economies of scale in production; the globalisation of markets requires firms to set up subsidiaries worldwide in a short period of time; firms need to share knowledge with local actors and reduce political risk in overseas operations. He also notes that joint ventures arise when two or more firms desire to combine their inputs, but that the transfer of those resources has high market transaction costs, typically because they are know-how resources, so an equity transaction is preferred. However, when neither firm can afford to acquire all of the other, or both sets of resources are so embedded in their organisations that the market fails in both cases, or the strategic opportunity is

time-sensitive, a complete takeover may not be desirable and an equity joint venture is the preferred subsidiary form.

2.3.4.1.   Exploring Global Synergy

Glaister (2004) argues that from the transaction cost perspective the IJV can be considered as an economising device in the context of the strategy of the parent firms. In the past, most joint ventures involving MNEs were merely regarded as a means to enter foreign markets. They were not considered a part of the network of business units that firms used to cope with worldwide competition. Nowadays, an investment in a particular local market is considered strategically important when it is consistent with the primary focus and function of a firm's global strategy (Child and Faulkner, 1998; Harrigan, 1987b; Kogut, 1988b). Many multinational enterprises develop complex networks of production and distribution systems around the world whereby exchanges of resources and skills and collective learning takes place between headquarters and subsidiaries and among subsidiaries (Ghoshal and Bartlett, 1990). For the successful implementation of global strategy, an MNE should efficiently implement its entry strategy for each separate international market because the failure or success of the investment in a particular local market is important to a firm's global strategy.

Researchers such as Levitt (1983) and Kotabe (1992) suggest that companies competing internationally can not afford to be polycentric, applying a country-by-

country approach (i.e., the multinational strategy). Instead, they must seek global-scale economies to be competitive, thus implying the need for firms to focus on developing an integrated and well-coordinated global strategy rather than making adaptations to maximise local competitive advantages. Many firms manufacture in the emerging markets primarily to capture a share of rapidly expanding market opportunities. This strategy involves producing for local consumption, with attempt to integrate these markets into the MNE's regional or global networks (Yan and Gray, 1994).

Global strategic motivation can be defined as motivation to fulfill strategic aims set at the corporate level for the purpose of overall corporate efficiency maximisation. High level of control enhances an MNE's ability to ensure that strategic actions taken by a subsidiary in one national market do not produce negative ramifications in other national markets above and beyond the expected gains to be made by a focal subsidiary's strategic move (Child and Faulkner, 1998). At the same time, a high level of control enhances a multinational's ability to call on its subsidiary located in one market to assist in a competitive battle being fought in another market for the benefit of the overall organisation.

2.3.4.2.   Spreading Financial Risk

Although the organisational risk implications of IJVs have not been a topic of empirical research, risk figures highly in many discussions of IJV formation motives (e.g. Contractor and Lorange, 1988). By engaging in joint ventures rather than

acquisitions, for instance, firms can spread various risks over multiple capital providers in large-scale projects (e.g., Kogut and Singh, 1988). One possible motivation for establishing an international joint venture rather than a wholly owned foreign affiliate is to attenuate local risk by reducing the investment exposure of the parent firm. For either partner, the possibility of joining with another company in the new venture lowers capital requirements relative to going it alone.

IJV is an attractive option when the projects are large and risky (Pucik, 1991; Shan, 1991). Project size implies levels of resource commitment, capital contribution, start-up costs, and financial risk, which may in turn affect entry mode decision. Some projects would never be undertaken without this means of spreading costs and risks. Risk premiums may be even higher for big projects in emerging economies. By pooling and sharing information through the mechanism of a joint venture, the foreign firms are able to reduce risk at a lower long-term average cost than through pure hierarchical or market approaches. Thus, firms may shy away from the wholly-owned entry mode in favour of joint ventures when the project is too big. Williamson (1985) suggests that investors deal more cautiously with transactions that involve greater investment commitment.

When the macro-investment environment in a host country gets too risky, foreign firms are often advised to reduce the level of investment in that country (Tallman and Shenkar, 1994). However, it may not be as simple as that. Some industries have a minimum scale of operation. When a foreign firm decides to invest

in China but is unwilling to commit the necessary investment, it has to find a local partner, to put up the balance.

The financial risks, of course, are offset by prospects for higher long-term returns, typically a primary reason for investing in the first place. Joint ventures still provide a mechanism through which companies can limit their financial exposure while at the same time gaining experience in a new market. A large investment is associated with higher start-up, switching, and exit costs, thus involving greater financial and operational risks (Agarwal and Ramaswami, 1992). In order to reduce such transaction costs, firms become more prudent. European companies have less investment in China than their American and Japanese counterparts. However they have an average larger size of investment (see Table 1-2). Consequently, pursuing risk reduction in order to achieve investment efficiency is one of the main strategic objectives of European partners.

2.3.4.3.   Avoiding Political Uncertainty

Most emerging economies are characteristised by greater environmental volatility than developed market economies (Boisot and Child, 1988; Peng, 2000). According to Asian Development Bank (1997), Asian countries have only recently embarked on economic reforms and market liberalisation, both of which invoke changing government regulations and implicitly, disequilibrium for foreign investors. Arguably, higher level of political risk in Asia also arises from government-induced

distortions aimed at protecting emerging local industries from sophisticated global competitors (Economist, 1997). The political risk of undertaking joint ventures in Asia perhaps explains why a relatively higher proportion of MNEs enter into joint ventures with state-owned enterprises (Asian Development Bank, 1997).

Generally, "political risk" refers to changes in the political decision-making in the host country, and the effect of this is known as "intervention". Country risk can take many forms, including political instability, economic fluctuations, and currency vulnerability (Harrigan, 1985). Many companies view government actions, such as a change in interest rate, artificially holding prices down in a time of high inflation, and the withdrawal of preferential treatment etc., as "government intervention" (Zhuang *et al*, 1998). MNEs managers see the inconsistency of government policy as the most problematic issue concerning their business operation. This seems to tie in with the reputation of the Chinese government which is known for frequently changing its policies without warning. Thus, using joint ventures as a means of reducing the political risk of intervention represents a logical decision for many companies operating in developing countries. Even corporate managers with extensive international experience often see developing country markets as inherently more risky than operations elsewhere in the world. Wu (1992) argues that political environment is a subject which has been mentioned as a reason for expecting that U.S. investors may be reluctant to commit resources in China.

When multinationals evaluate investment opportunities in developing countries, political uncertainty and investment instability are inevitable considerations. For example, although many foreign investors find China a profitable investment environment, with good longer-term prospects, others nevertheless face considerable difficulties in managing their ventures in China. Changes in government laws and regulations, plus the vagaries of their interpretation at the local level, are a major headache for most foreign managers in China. The still considerable governmental bureaucracy is combined with regulatory ambiguity, general legal and business risks. There have been major and expected policy changes on matters such as import duties and VAT rebates for joint ventures (Zhuang *et al*, 1998). By investigating seventy-three Sino-foreign IJVs, Vanhonacker and Pan (1997) found that the lack of clarity in laws and regulations has often been voiced as a concern by foreign managers operating in China. They believe that not fully comprehending the future implications of laws and regulations, Chinese officials in general have been very careful when drafting legislation to leave enough of a gray area so that unforeseen problems or issues can be dealt with in the future. This situation certainly has increased the instability of policy enforcement.

Gupta *et al* (1991) identify the several aspects of political risk concerning FDI in China. First of all, China has a greater degree of political instability and ideological swings. Secondly, foreign joint ventures in China may suffer ownership-related risk such as expropriation, currency conversion impediments, and intervention risks. An

additional element of political risk is the uncertainty from the inadequate Chinese

legal framework governing foreign joint ventures. Furthermore, entering the Chinese

market imposes significant costs of information gathering, given the lack of prior

business experience in this market.

In a sample of sixty-seven manufacturing equity and contractual joint ventures

in the PRC, Teagarden (1990) finds that many Sino-foreign joint ventures are greatly

influenced by government policy. He argues that the perception of government

mandate was the primary motivator for alliance formation. For example, many were in

an extremely difficult situation in the early 1990s because of Chinese adjustments in

foreign and domestic policy after the 1989 Tiananmen event. The joint ventures of

Volkswagenwerk AG and Peugeot suffered drawbacks in the late-1980s due to a tight

control of foreign exchange. Production was stopped and any planned expansion of

investment was suspended. The difficulties were overcome by the local partners

negotiating with host government. Similarly, Pearson's (1991) interviews with

Chinese and foreign managers suggest that most managers were positive about the

performance, and optimistic about the future prospects. Her interviews were

conducted before the Tiananmen Square Incident of 1989. In contrast, Beamish (1993),

who researched IJVs shortly after the Tiananmen Incident when the money supply was

very tight, reports that over half of the Chinese and foreign managers in his interviews

reported dissatisfaction with the performance of their joint ventures. Ma *et al* (2003)

also contend that the political incidents on the value of US firms with joint ventures in

China had a significant impact, and the market had reacted to this event in an efficient manner.

2.3.5. Organisational Learning Theory and IJV Knowledge-Acquiring Objectives

Organisational learning theory is often viewed as a non-cumulative and fragmented theory with limited empirical validation or consensus on what is meant by the term learning (Pennings *et al*, 1994). For example, Hedberg (1981) defines organisational learning as "both the process by which organisations adjust themselves defensively to reality and the process by which knowledge is used offensively to improve the fit between organisations and their environments" (p.3). Fiol and Lyles (1985) define organisational learning as "the development of insights, knowledge, and associations between past actions, the effectiveness of those actions, and future actions" (p.811). Although there is no consensus towards the definition of organisational learning, many agree that the core of organisational learning is the process of understanding and gaining new insights (Berrell, 2002; Easterby-Smith *et al*, 2000; Fiol and Lyles, 1985; Senge, 1990). When a joint venture is created, organisational boundaries become permeable. This permeability provides firms with a "window on their partners' broad capabilities" (Hamel *et al*, 1989). Consequently, knowledge creation and learning should be viewed as potential strategic benefits of joint venturing.

The current study adopts the definition of organisation learning as the process of improving organisation actions through knowledge transfer and increased understanding of the environment (Fiol and Lyles, 1985; Kogut, 1988b; Lane *et al*, 2001; Lyles *et al*, 2000). In addition, according to the above discussion, this study also argues that organisational learning particularly fits those IJVs pursuing long-term success, because successful organisational learning mainly involves the acquisition of indirect benefits (e.g., knowledge). Meanwhile, the above acquisition may lead to a change of organisational knowledge and eventually influence IJV long-term strategic success.

Although the value of organisational learning is increasingly emphasized in the international business literature, Easterby-Smith (1997) suggested that organisational learning with an international perspective is an under-researched area. Wong, Maher and Luk (2002) also contended that research on learning and knowledge transfers in international joint ventures in transitional countries is limited. The importance of learning in the management of joint ventures has only recently emerged in the literature. In fact it has been argued that learning or knowledge acquisition is a strategic imperative in that it is one of the surest means to a competitive advantage and enhanced organisational performance (Grant, 1996; Johnson, 2000; Leventhal and March, 1993; Spender, 1996). Grant (1996) even suggests that the knowledge-based view is an extension of resource base theory wherein knowledge can be viewed as the "most strategically-significant resource of the firm" (p.375). In terms of alliances,

organisational learning is used as a theoretical underpinning for research investigating issues such as the acquisition and transferability of knowledge between parties, barriers to inter-organisational learning, how firms develop knowledge about alliance management, and how knowledge influences alliance performance (Simonin, 1997).

Lyles (1988) supported the JV-learning argument. In her case study, Lyles addresses three key organisational learning issues: learning that occurs within the joint venture parent firms; the process by which learning occurs; and what the firms learn. In addition, she divided organisational learning into two levels: low-level and high-level. The former includes success programmes (i.e., standard operating procedures), and management systems (i.e., policies or hierarchical information flows). The latter deals with the more complex process that firms use to adjust organisation goals, beliefs, and norms.

Westney (1988) proposed two strategies regarding IJVs: cooperative strategy and learning-oriented strategy. The former has as its goal the obtaining of a specific output. The latter has been applied under greater uncertainty: involvement in a denser and more varied set of interorganisational resource flows; and during the addition of value (i.e., new skills) internally to enhance the firm's competitive advantage in order to make the relationship work. He argued that a firm whose activities are beginning to cross industry boundaries must acquire knowledge from its environment or, more precisely, from other organisations in its environment. Thus, although not all

cooperative strategies involve learning, learning can become an indispensable mechanism for cooperative strategies.

Hamel (1991) identifies three factors that affect learning through alliances: intent, transparency, and receptivity. Intent refers to a firm's propensity to view collabouration as an opportunity to learn new skills, rather than to gain access to a partner's assets. Where there is intent, learning takes place by design rather than by default, which is much more significant than mere leakage of information. Transparency refers to the openness or "knowability" of each partner, and therefore the potential for learning. Receptivity, or absorptiveness, refers to a partner's capacity to learn. Clearly, there is much a firm can do to maximise its own intent and receptivity, and minimise its transparency. Intent to learn will influence the choice of partner and form of collabouration.

From a learning perspective, the IJV is the most effective vehicle for the transfer of tacit and embedded knowledge, because it allows for prolonged cohabitation of managerial and technical personnel and facilitates the replication of organisational routines (Berrell, 2002). A direct interface among the partner firms permits direct observation of operations and enables the gradual and experiential learning that is essential for successful transfer of tacit knowledge. Equity control and profit and loss sharing serve to align the interests of parent firms, reduce opportunism, and eliminate the need for complex *ex ante* specification of ongoing activities and behaviour. Because tacit and embedded knowledge cannot be easily specified, IJVs

may succeed where other modes of interaction might fail. The IJV also allows for superior monitoring, since owners are typically entitled access to independently verified information and are also able to observe operations directly. Monitoring is especially valuable where tacit knowledge is not readily codified, and hence cannot be transmitted in the form of reports and balance sheets (Hennart, 1999). Indeed, given joint ownership rights and the mutual commitment of resources, the situational characteristics best suited for an IJV are high uncertainty regarding specifying and monitoring performance, and a high degree of asset specificity, conditions that also characterise tacit and embedded knowledge.

Kogut (1988b) proposes knowledge transfer as an organisation learning objective. He argues that a joint venture was and remained a way for an organisation to learn new capabilities. Kogut (1988b) further stated that a "market is replaced by a JV not because tacitness is a cost stemming from opportunism, but rather from the necessity of replacing experiential knowledge which is not well understood" (p.323). Therefore, entering an IJV may be a way for firms to combine complementary knowledge and know-how, to retain their embedded capabilities by replication, and to benefit from their partner's skills and capabilities. Although the foreign partner does not necessarily enter the IJV with the explicit objective of knowledge acquisition, access to knowledge originating in the local country is an important factor in motivating the foreign partner to choose an IJV investment rather than full ownership.

From global competition perspective, the importance of timely acquisition and internalisation of important skills on the part of firms is crucial. For this reason, both domestic and international joint ventures now have a higher likelihood of being motivated by learning. For international joint ventures in particular, this motive is much recognised in the literature. Researchers have pointed out that IJVs are an effective vehicle for coping with the competition and rapid technological change characterising the international environment (Contractor and Lorange, 1988; Gomes-Casseres, 1989). Learning is therefore perceived as a means of knowledge transfer and gaining collabourative know-how and collective experience (Child, 1994; Child and Rodrigues, 1996; Simonin and Helleloid, 1993).

In addition, Root (1988) argues that when the firm first enters as overseas market, a low resource commitment mode such as export is desirable. As the firm acquires more knowledge and experience in that overseas market, it will assume a higher level of resource commitment with higher level of risk, control and profit return. The motivation of the foreign partners to have a learning objective is the conversion of IJVs into wholly-owned enterprises after the learning objective is achieved. It has solid theoretical foundations: IJVs are a transitional form of management and serve as an intermediate strategy for a parent firm, with an option to buy out the other partner when the future is promising (Harrigan, 1985; Kogut, 1991). In short, when an MNE has acquired enough experience about local economic conditions, the economic rational for establishing a WOE is increased. In other words, the acquisition of local

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knowledge is the enabling factor in the transition from joint venture to subsidiary. During the early stages of market entry, a foreign firm requires a local partner. As the firm learns about the local peculiarities, it reduces dependence on the local partner (Deng, 2001). After all, the knowledge gained in joint venturing can be transferred to operation of wholly-owned enterprise later on. Moreover, with incremental experience and continuous knowledge acquisition, MNEs can obtain increasing sophistication in their approaches and solutions to the host country market. Indeed, many foreign firms initially operated as JV partners. At the end of a fixed period of time, they take over the assets from the local partners and continue to run the operations as WOEs (Business China, 1998). The primary reason is that the added value of the local partners is significant but limited to the early stages of the venture and the foreign parents can acquire sufficient knowledge of the local market as time passes.

In the current study, two types of knowledge are defined: country-specific knowledge and market knowledge.

2.3.5.1.   Acquiring Country-Specific Knowledge

Country-specific knowledge is usually defined as general knowledge. It comprises information and know-how about the economy, politics, culture, and business customs of the host country; information on how to access local labour force, infrastructure, raw materials, and other factors that are required for the conduct of business in a region. Makino and Delios (1996) in interviews with executives of

Japanese MNEs, each with several alliances in Southeast Asia, found that the primary motive for alliance formation with local firms was to access local knowledge. They also argue that when the firms invest abroad, it has the disadvantage of being foreign. This disadvantage of the liabilities of foreignness stems from a lack of local knowledge of social, political and economic conditions in the host country. Thus, a stock of local knowledge is required to mitigate such disadvantage.

Foreign market involvement is inherently risky due to elements such as cultural differences, political instability, or changes in the value of exchange rates. When a firm enters a foreign country for the first time, it lacks the local knowledge, which is tacit, and consequently its purchase is subject to high transaction costs. These firms are often hypothesized to benefit the most from participation in international joint ventures due to the associated learning opportunities.

Host country experience enhances the ability of MNE managers to scan, process, and analyse information about a new territory, thus improving the scope of bounded rationality and mitigating transaction costs (Williamson, 1985). Experience also reduces the uncertainty associated with assessing the probable economic worth of entering a foreign market (Barkema and Vermeulen, 1998) and strengthens the ability to stabilise business operations in an uncertain environment (Luo and Peng, 1999). It follows, therefore, that MNEs with little or no experience with a target host market will try to limit risk exposure (Chang, 1995). In this case, joint venture not only

reduces the firm's resource commitment and risk-taking, but also facilitates learning

through cooperation and interaction with local firms (Barkema *et al*, 1996).

It is generally more costly and takes longer for MNEs to develop host country-

specific knowledge when using wholly-owned subsidiaries than is the cost for those

that are learning from joint venture partners (Erramilli, 1991; Hamel, 1991). Business

culture, commercial practices, and networking tactics are culture specific (Luo and

Peng, 1999). Cultivating good relationships with various governmental authorities is

essential yet challenging (Xin and Pearce, 1996). Under these circumstances, a local

partner's country-specific knowledge is of strategic importance to foreign companies

with little experience in the host country (Inkpen and Beamish, 1997). In certain

countries like China and Russia, the economic and political climates are evolving so

rapidly that local "know-how" is a prerequisite to conducting successful business in

these markets (Beamish, 1993; Fey and Beamish, 1999).

Beamish and Banks (1987) found that northern European firms seeking to do

business in China prefer to form joint ventures with local firms in order to acquire

local knowledge. They argue that the joint ventures are used when the MNEs from

developed countries encountered higher adaptation and information requirements than

they are accustomed to, particularly in culturally dissimilar countries. For example,

when Kentucky Fried Chicken entered China, a local partner was considered essential

because of the complexities associated with obtaining operating licenses and leases,

negotiating employment contracts, and interpreting investment regulations. China was

self-sufficient in many areas and closed to the Western world for a long time. Western culture to China may encounter more adaptation problems than it would in other developing countries. Most European investors in the PRC confront such requirements.

Si and Bruton (1999), when examining Sino-foreign IJVs, found that Chinese IJV partners' knowledge needs were focused on the acquisition of economic factors related to the operation of modern business, whereas Western partners of the IJV were interested in acquiring knowledge related to Chinese culture and local market conditions. Indeed, the high uncertainty of the Chinese environment and its cultural impediments offer significant challenges to potential foreign market entrants. For example, any major manufacturing joint venture in China is influenced by five levels of Chinese bureaucracy: the central planning authorities, the ministerial organisations that carry out the plans, the local government, the Chinese partner, and the Chinese managers and workers - each of whom may have distinctive attitudes about the purpose and operations of a foreign joint venture. It is a time-consuming job for foreign managers to understand the relationship between different levels and how they function. In addition, China's legal system is not a consistently applied system of recognised rights and wrongs, but rather a series of broad guidelines that give an individual judge leeway to determine rights and wrongs. Furthermore, a provincial government may write regulations prohibiting the sale of a product not produced in its own region. Thus the Western joint venture partner is highly likely to place greater

emphasis on knowledge acquisition in China than would be the case in other business environments.

2.3.5.2.   Acquiring Local Market Knowledge

Marketing considerations play a primary role when international firms evaluate the joint venture approach (Mead, 1994). Local market knowledge is usually the foreign firm's major lack when entering a host country. Diverse local tastes and preferences and marketing practices increase the possibility that foreign firms will make costly mistakes, encounter significant delays, or struggle to establish operations abroad. Many rash attempts to enter new host countries consequently result in prolonged poor performance or even eventual withdrawal. One of the fundamental reasons for these difficulties is a foreign firm's lack of local market knowledge regarding the new country context. Inkpen and Beamish (1997) assert that acquisition of local market knowledge is critical for the successful planning and implementation of almost all aspects of entry into a new host country.

However, it is very difficult and costly for a foreign firm to initially acquire local market knowledge since some knowledge is not readily transferable, or must be obtained through partnering with another firm (Makino and Delios, 1996). The local market knowledge ranges from explicit information such as demographic data, macroeconomic statistics, or other codified market research, to more tacit forms of knowledge, such as local product market and distribution channel familiarity,

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knowledge of labour conditions, likely problems in managing in the local environment, knowledge of the legal system and government regulations, and familiarity with local customers and conventions, etc.

In emerging countries, relatively explicit forms of market knowledge can be difficult to obtain because well-developed sources of market information may not exist. Moreover, even when explicit forms of market knowledge do exist, they may become quickly obsolete because of rapidly changing political and economic conditions. Even though extensive market research statistics and published reports might be helpful to a foreign firm, they can not ensure a successful foreign market entry. For example, despite extensive pre-entry market research and planning, Disney's theme park in Europe struggled for many years because the company lacked a deeper understanding of the differences of local culture and their impact on human resource management and marketing (Etienne-Benz, *et al*, 1996).

There are several dimensions in all to which a local partner might be expected to make a contribution. On one hand, when a foreign firm does not have local market knowledge, IJV can be used to gain quick access to local partner's knowledge base. On the other hand, for a foreign company seeking to deepen its understanding of local conditions in a country, a JV provides one way to shorten what could be a lengthy and potentially expensive process. As one executive described in Beamish's (1987) survey:

"We need our partner in the same way that a child playing in a park still likes to have his parent around if he gets into trouble. It's not that the child is dependent on the parent, but more a function of being reassured that he is there if needed." *(p.32)*

Foreign firms may also find it difficult to penetrate foreign markets without local marketing expertise. A joint venture partner may provide the know-how or established local distribution channels through which to market the new product. For example, Japanese linkups with U.S. pharmaceutical firms, take advantage of both the Japanese and U.S. parents' home-country distribution networks to market new pharmaceutical products (Hennart, 1991).

In the process of implementing their business strategies, foreign firms have to face Chinese business practices often sharply dissimilar to those prevalent in their home countries. As a result, sensitivity to local Chinese business conditions, such as the importance attached to personal relations (*guanxi*) with customers, or the practice of extending credit terms in marketing must be developed. In particular, cultivating and extending firm's *guanxi* should be a preoccupation for business success. Given the pervasive influence of *guanxi* in Chinese societies, sales force marketing is a crucial selling tool for firms operating in these environments. Likewise, the provision of preferential terms of payment for customers is common across firms and in every economic sector in China.

2.4. Conceptualisation of Parent Control

As joint venture partners come together to form a separate organisation with shared ownership, the exercise of management control in joint ventures is far more complex than controlling stand-alone companies and has received considerable attention by joint venture researchers and practitioners alike (Yan and Luo, 2001). The topic of IJV control was first raised by West (1959), who recognised potential inter-partner conflicts, which could result from this form of organisation. According to Geringer and Hebert (1989, pp.236-237) "control refers to the process by which one entity influences, to varying degrees, the behaviour and output of another entity through the use of power, authority and a wide range of bureaucratic, cultural and informal mechanisms."

Kogut (1989) and Inkpen & Beamish (1997) argue that a joint venture can, by itself, enhance uncertainty because it is a less stable organisational form. The uncertainties of joint venture arise partly from the weak sanctions they provide against a partner's opportunistic behaviour and from the potential for competitive conflicts between partners. In addition, contract may not cover all possibilities, and enforcement of contracts may be difficult. In order to limit these uncertainties, exercising management control over joint ventures is desired.

Mjoen and Tallman (1997) argue that parental control of venture activities implies that the parent firm can ensure the most effective use of whatever strategic resources it shares with the IJV, a great concern in turbulent environments. Control also implies that the strategic resources of one parent can be sheltered from the kind of casual exposure to the other parent by which competitive advantage may be lost to a potential competitor. Similarly, Geringer and Hebert (1989) suggest that exercising control over some or all of the activities of an international joint venture help protect the firm from premature exposure of its strategy, technological core or other proprietary components to outside groups. Transaction cost theory also suggests that since it is virtually impossible to specify all future contingencies at the time of drawing up a contract for interorganisaitonal partnerships, mutual adjustment between the partners in executing the contract, as an informal control mechanism, should be installed to attenuate the costs potentially caused by opportunism engaged in by the partners (Williamson, 1975).

Control plays an important role in determining a firm's ability to achieve its strategic objectives, since it affects the organisation's ability to monitor, coordinate, and integrate the activities of its various business operations (Geringer, 1993). Without effective control efforts, firms are likely to experience increased difficulty in successfully managing their operations and achieving their objectives. This is particularly essential in the case of JVs due to the shared ownership and decision-making nature of these ventures; each partner must relinquish some control over the

JV's activities (Geringer, 1993). A firm may avoid relinquishing control over some or all of its activities for reasons intimately related to its corporate strategy and objectives. Attainment of a firm's objectives over the long term depends upon its ability to implement a strategy which exploits its distinctive competences along one or several critical dimensions of corporate activity. Because it may decrease the probability of achieving a desired behaviour or outcome, insufficient or ineffective control over an IJV can limit the parent firm's ability to coordinate its activities, to efficiently utilise its resources and to effectively implement its strategy. In contrast, exercising effective control over some or all of the IJV's activities helps increase the probability that a desired behaviour or outcome will be achieved. Therefore, to fully achieve their strategic objectives, it is essential that parents implement effective control systems within their IJVs.

Geringer and Frayne (1990) argue that from the parent firm's standpoint, an effective IJV control system is one which promotes the attainment of its strategic objectives for the venture. However, the unique feature of IJV is the shared nature of ownership and decision making. Therefore, in order to develop a truly effective control system, the parent must not focus solely on its own self-interests. Rather, the parent must also ensure that the control system it proposes to implement will not prevent the other partners, as well as venture management, employees and the host government from also achieving their strategic objectives.

Exercising effective control over a joint venture is often difficult for both sides. Each faces a conflict between the desire and the ability to exert control over the joint venture (Mjoen and Tallman, 1997). Intuitively, most partners want a high level of control. Makhija and Ganesh (1997) use the concept of perceived bargaining power to explain the ability to control. They argue that variances in composition and distribution of power within an organisation should influence the design and use of control mechanisms. A partner with greater bargaining power can affect the design and use of control mechanisms more than the partner with less power. In other words, the level of control by one party reflects its importance in the joint venture. A party, whose need for the other's special resources is high, has reduced bargaining power and cannot gain complete control over the joint venture. For example, foreign partners that want to take advantage of local resources are likely to give part of the control to the local firm because of its poor local knowledge.

Indeed, among the available research studies, there is also the complication that some have examined control in joint ventures between developed countries, while others have investigated control in joint ventures between developed countries and developing country partners. The distinction between these two situations has to be borne in mind because they may produce contrasting findings with different practical implications (Beamish, 1988). According to Child and Yan (1999), when parents from developed and developing counties are involved, there can be a marked asymmetry in their relative ability to provide valuable resources. Such asymmetry may enhance the

potential for control, because it reduces the likelihood of dispute between the parents, and enhances the legitimacy of the parent that provides the resource.

Geringer and Hebert (1988) conclude that the concept of IJV control is a multidimensional construct. They identify three dimensions of control in international joint ventures: 1) the types of control mechanisms employed by parent organisations to monitor and evaluate the activities of IJVs; 2) the focus or scope of the parents' control activities; 3) the extent or level of control exercised by parent companies.

2.4.1. Mechanism of Control

The first dimension of IJV control which researchers have examined is the means or mechanisms by which control is exercised. Parents use these mechanisms to ensure that risk is minimised and return is maximised, as well as to efficiently coordinate activities, utilise resources, and implement corporate strategies (Geringer and Hebert, 1989; Luo, 2001; Yan and Gray, 1997, 2001)

The most widely researched, and yet most controversial, control mechanism is the parents' ownership share in an IJV (Yan and Gray, 1992). Early studies showed that some firms consider equity ownership to be tantamount to control and therefore desire high levels of equity ownership as a means of acquiring control (Friedman and Beguin, 1971; Stopford and Wells, 1972; Tomlinson, 1970). For example, Gullander

(1976) asserted that management control is said to exist for a company that has the majority equity share.

This narrow treatment of IJV control has been widely criticised. Yan and Gray (1992) indicate that even though ownership and management control are closely correlated, they are conceptually and operationally distinct from each other. It is misleading to assume that 51 percent of equity share can be interpreted into complete management control, while 49 percent of equity means complete lack of control.

Although a majority equity position can ensure some degree of control, it is not a strict and automatic consequence of ownership. Boisot and Child (1990) argue that in developed countries, the amount of control increases along with ownership. Such a relationship breaks down in developing countries since there is local government legislation or pressure limiting foreign company ownership. However, the foreign firms are able to exercise somewhat greater control than their equity levels would suggest (Beamish, 1993). The cut-off point of ownership percentage that distinguishes an IJV from other forms of foreign direct investment (e.g. minority investment) is therefore ambiguous in the literature. This will be further discussed in section 4.5.

A variety of mechanisms other than equity participation are available for firms to exercise effective JV control, such as participation in the management of day-to-day operations, special agreement related to technology and management, representation

on board of directors and the use of veto right, etc. (Behrman, 1977; Child, 1973; Friedman and Beguin, 1971; Yan and Gray, 1992).

In a landmark study, Schaan (1983) distinguished positive control mechanisms, which parent firms employed in order to promote certain behaviour, from negative control mechanisms, which were used by a parent to stop or to prevent the IJV from implementing certain activities or decisions. Positive control was most often exercised through informal mechanisms, staffing, participation in the planning process and reporting relationships. In contrast, negative control relied principally on formal agreements, approval by parents and the use of the IJV board of directors.

Aulakh *et al* (1997) divide control mechanisms into three classes: output control, i.e. monitoring results in relation to performance goals; process control, i.e. monitoring behaviour or means to achieving goals; and social control, i.e. self-control fostered within a common organisational culture. The first two are formal control, which consist of written rules, goals, procedures, and regulations that often relate to specific performance and behaviour outcomes; and the latter one is informal, which is facilitated through methods such as socialisation and training.

2.4.2. Focus of Control

The second dimension of control which researchers have examined is the focus of control, i.e., the activities or decisions over which parent firms actually exercise

control. Parent companies tend to selectively control only those IJV decisions that are strategically important to them, instead of trying to exercise control across the whole range of venture activities.

Control is not free – the exercise of control costs critical organisational resources (e.g., executive time, budget, and expatriation of managers). This perspective of control was supported by Geringer's (1986) empirical study of ninety joint ventures in developed countries. These findings imply that parents with different strategic objectives and interest in the joint venture might seek control over different joint venture activities. For example, studies reveal that expatriate managers are very expensive (Joinson, 2002). One estimate of the direct costs of expatriate managers is three times the domestic salary plus relocation expense. Relocation alone runs as high as $150,000 per person. Beyond these costs and expenses, the expatriate managers are reported to have problems such as difficulties in maintaining productive and satisfying relationship with local employees (Clarke and Hammer, 1997), generally poor work performance (Harvey, 1985), and a high rate of premature return (Shay and Tracy, 1997). Sending expatriate managers to joint ventures therefore becomes more and more selective.

Glaister (1994) noted that, based on data collected from 94 joint ventures in UK, parent firms tended to seek to control specific decisions and activities, to select the area of control, and the strategic areas concerned. Meanwhile, a parent firm not adequately exercising control over activities judged as critical for the achievement of

its objectives could ultimately suffer from ineffective strategy implementation and strategic inflexibility.

Ding (1997) found that Chinese partners are likely to have less expertise at improving efficiency in joint ventures compared with foreign partners. Performance is enhanced when foreign partners apply their advanced managerial skills and technology. By controlling the major joint venture functions, foreign partners are likely to ensure their own profits and high performance.

Child (1984, pp.137-138) argues that there are two kinds of control that investors may hope to attain: strategic control and operational control. Macintosh (1994) also termed them "market control" (strategic) and "command control" (operational control).

Strategic control is control over the means and methods on which the whole conduct of an organisation depends, including the deployment of capital, the determination of strategic priorities and the making of senior appointments (Child, 1984). These decisions are important to the organisation at the overall level and have great impact on the organisation's long-term prosperity. The locus of strategic control over joint ventures rests at the corporate level of the joint venture.

Operational control is control over the production process within an organisation, in the sense of determining how the employees of an organisation perform their work (Child, 1984). It involves such activities as regulating and

governing the implementation of the strategic decisions, making operational decisions, coordinating across functional areas, and overseeing the joint venture's overall operation on a day-to-day basis.

In their extensive review of previous empirical research on this issue, Child and Faulkner (1998) conclude that a parent firm's equity share impacts the strategic control over a venture while its control in operational areas relies upon its provision of noncontractual support (p.201). More interestingly, they found that separation between strategic and operational control is frequently observed in IJVs formed between developed- and developing country partners.

It is noticeable that strategic control and operation control are not mutually exclusive but are overlapping (Child *et al*, 1997; Mjoen and Tallman, 1997; Yan and Gray, 1994). However, the distinction between strategic and operational control is essential. Strategic control for a joint venture can be exercised in a remote manner – the controller does not need to reside near the venture, while operational control is necessarily on-site. Particularly in international joint ventures, it is extremely difficult to exert remote operational control over such activities as dealing with local environmental issues, maintaining distribution networks, and resolving daily problems. Frequently, the primary means for the foreign partner to exercise operational control is to position expatriate managers in the IJV.

2.4.3. Extent of Control

The third dimension of IJV control examined by researchers was the extent of control, i.e., the degree of control achieved by the parent firms. In his study of 23 U.S.-based wholly-owned subsidiaries and joint ventures operating in Taiwan and Philippines, Dang (1977) used a range of 17 items to measure control based on the locus of decision making. He found no relationship between the degree of equity ownership and the degree of parents' control over their subsidiaries. However, he observed a higher incidence of expatriate managers in joint ventures than in wholly-owned subsidiaries, which suggested that the degree of control in these ventures might in fact be higher than that indicated by the control indices. Other authors (Tomlinson, 1970; Killing, 1983; Beamish, 1985) measured the amount of control achieved by the partner over the joint venture by examining parent firms' influence on a number of important types of decisions in joint ventures.

Consideration of the extent of control also draws attention to the danger of over-control. The attempt to exercise more control than is necessary will not only incur additional direct costs, it could have negative consequences. If one parent tries to exert too much control within a joint venture, this may threaten the quality of its relations with its partner. As Schaan (1988: p.5) argued:

'in order to ensure the success of a joint venture, managers seek to strike a subtle balance between the desire and need to control the venture

on the one hand, and the need to maintain harmonious relations with the partner(s) on the other hand'.

Moreover, if parents either singly or together try to control their joint venture too much, this may inhibit the flexibility which the joint venture needs in order to develop within their own competitive environment (Bleeke and Ernst, 1993). Therefore, as Ohmae (1993: p.42) argues, 'Managers must overcome the popular conception that total control increases chances of success'.

In his pioneering study of control in thirty-seven joint ventures from developed countries, Killing (1983) classified joint ventures into three groups based on the amount of control shared with a partner. In the first group of ventures, management is dominated by a single parent. Killing described such ventures as managed much like wholly-owned subsidiaries; almost all operating and strategic decisions are made by the dominant parent. The board of directors plays a largely ceremonial role in dominant-parent ventures. In the second group of ventures, management is extensively shared by the parents. In shared management ventures, both parents actively participate in the management of the venture so that almost all significant management decisions are shared. The board of directors, consisting of executives from each parent, has a real decision-making function. In the third group of ventures, classified by Killing as independent, management is independent of both parents. In this type of venture, the management team is highly autonomous, receiving little direction from either parent.

Regarding the third group, Anderson (1990) agrees that joint ventures should be seen primarily as stand-alone entities seeking to maximise their own performance, not the parents'. This perspective would then free the joint venture from parent politics and parochial viewpoints. This may be naïve and, in practice, impossible. It is frequently imperative to consider joint ventures in the context of their fit within the network of the parents' (international) ventures. The linkages which most alliances have with other units of the network may render them inseparable, politically, from the power structure of the network as a whole.

Killing's classification was an important contribution to this area of research and has been widely employed in subsequent studies. It will be discussed in more detail in Section 2.7 in relation to two main arguments on extent of control: dominant and shared control.

In summary, parent control is a critical variable in the IJV literature, though the concept has not been consistently defined and operationalised. It is reasonable and comprehensible that parent control be conceptualised as a multi-dimensional variable manifested in the mechanisms, focus and extent of control.

2.5. IJV Performance

2.5.1. Conceptualisation of IJV Performance

Organisational performance is a multidimensional construct whose conceptualisation and operationalisation, over the years, has created much controversy and heated debate in the organisation and management literature (Beamish, 1985; Calantone and Zhao, 2000; Chakravarthy, 1986; Geringer and Hebert, 1988, 1991; Killing, 1983). In IJVs, performance evaluation is even more problematic because more than one firm is involved and each may adopt a different perspective. Many of the performance problems experienced by IJVs have been linked to the unique managerial requirements of these ventures. The complexity associated with the presence of two or more parent organisations, who may be competitors as well as collabourators, often causes IJVs to be difficult to manage and can result in substantial transaction costs associated with coordination of and communication between parents and the IJV. The overall costs can be quite substantial since, in addition to consuming large amounts of management time, money and other scarce resources, an IJV may also expose critical aspects of a parent firm's strategy, technology or other know-how to partner or third party firms, thereby threatening to compromise the parent's long term competitive position. Thus, performance problems of IJVs constitute a major concern for the parent firms.

Nevertheless, the lack of clear understanding surrounding the concept of IJV performance has constrained research progress in this area of investigation. Obviously,

the inadequate performance evaluation of joint ventures may affect the efficiency of their resource acquisition and utilisation, and this could eventually lead to stress or demotivation among managers, simply because the parent companies are applying inadequate performance criteria (Shapiro, 1982; Demirag, 1988). Lee and Beamish (1995) point out that the performance problems are costly not only to the parent companies, but also for the recipient country itself, due to the social costs and economic disturbances associated with such problems. A major controversy over the measurement of joint venture performance appears to be in finding an appropriate criterion.

Given such difficulties, it is easy to understand why so many criteria for measuring joint venture performance have been used in the literature. Not only do few studies employ exactly the same dimensions, but also the operationalisation of the same criteria is not always the same. There is no consensus on the most appropriate criteria for evaluating joint venture performance, even if some measures are more widely used than others.

In this study, IJV performance is defined as follows: performance is the effectiveness of the joint venture in achieving the strategic objectives of the foreign parent firm. There are three points in the definition which are noteworthy.

First, evaluating performance from the foreign parent's point of view correctly focuses on the interests of the Western shareholders of the joint ventures. Since

performance is defined as achievement of foreign partner's strategic objectives, it is logical to assess from the single parent perspective, i.e. European partner. The comparison of assessment from parent or joint venture perspective is further discussed in section 2.5.3.

Second, through utilising joint ventures as a means to achieve the strategic objectives, sponsoring organisations evaluate the performance according to their diverse goals. Unless the parents' strategic expectations are going to be met, there is no need to establish joint ventures at the first place (Harrigan, 1986). This study attempts to provide insights on European firms investing in Chinese joint ventures, including the strategic objectives they intend to attain and how they control the joint ventures. It is appropriate to assess whether the joint ventures achieve the parent's objectives effectively.

Third, the achievement of the parent's objectives serves as a more flexible and robust indicator of performance than some quantitative measures, such as profitability. The two streams of viewpoints are compared in section 2.5.2.

2.5.2. Subjective vs. Objective Measures of Joint Venture Performance

Subjective measures usually try to obtain a rating of how effective a given joint venture is at meeting its goals, as perceived by managers. They include items such as perceived IJV success (Beamish, 1985; Beamish and Banks, 1987, Killing,

1983; Yan, 1993), and perception of goal attainment (Beamish, 1993, Lyles and Salk, 1996).

Objective measures are often limited to three criteria: longevity or survival (Harrigan, 1986; Kogut, 1988b), stability (Beamish, 1985; Gomes-Casseres, 1987; Osland and Cavusgil, 1996) and quantitative measures (Tomlinson, 1970). Longevity or survival is the duration of a joint venture, from the date of its establishment to its termination. Stability refers to whether there has been any change in the capital structure or control of a joint venture during this lifetime. Quantitative measures are indicators such as profitability, growth and market share, etc.

Both subjective and objective measures of IJV performance have their own limitations. Studies that measure IJV performance in terms of venture survival or stability incorrectly assume that characteristics such as venture termination or instability are indicative of poor IJV performance. Gomes-Casseres (1987) argues that changes in ownership share are often normal evolutionary developments in a venture's lifetime that represent organisational adaptations to environmental changes. Furthermore, the death of an IJV does not automatically imply that the venture is dissolved because of poor performance. Some IJVs, especially those operating in centrally planned economies, are formed with a predetermined life span. When the IJV contract expires, the venture is either dissolved or a new contract is drawn to extend the venture's operations. For example, Hamel (1991) argues that where learning is one

of the strategic objectives, the termination of an agreement can not be seen as failure, nor can its longevity and stability be seen as evidence of success.

In measuring success one could try to take objective measures such as return on investment, growth, market share, or, shareholder value. This way of measuring has two pitfalls: first, it is impractical as results of foreign subsidiaries are not available, except, in those cases which are listed on a stock exchange; companies would be reluctant to give such information privately for fear of giving away inside information. Second, those measures would be quite biased and incomplete anyway since in a lot of cases, tax consideration, supply contracts, management fees, technology licensing fees, royalties, and transfer pricing practices (Geringer and Hebert, 1991), or simply competitive secrecy would make the data questionable. IJVs may be formed for pursuing a variety of objectives, from technology transfer and joint research to access to materials, new markets or economies of scale (Contractor and Lorange, 1988). Many IJVs also operate in contexts where measures of short-term financial performance might suggest that the venture is performing poorly. For example, IJVs formed to develop radical new technologies or new markets are often not likely to generate a financial profit for many years. In such situations, a financial or objective measure is unlikely to accurately capture an IJV's relative performance.

On the other hand, subjective measures suffer from serious response biases. It is not uncommon to find managers that are reluctant to admit that their ventures are underperforming even when there are clear signs of poor performance. Moreover, the

fact that a joint venture reaches its goals does not mean that it is efficiently managed or without any problem.

There are a few studies which investigate the links between subjective and objective measures. Interestingly, they suggest that the two types of measures are positively correlated and complementary (Geringer and Hebert, 1991; Glaister and Buckley, 1998; Hatfield *et al*, 1998). Geringer and Hebert's (1991) work is the first study which examines the relationship between objective and subjective performance measures. They found that the correlation between objective (survival, stability, and duration) and subjective measures is generally positive but that the strength of the links varies significantly according to the different criteria used. Objective measures are strongly correlated to subjective assessment of overall satisfaction with joint venture performance and individual dimensions evaluating overall effectiveness (e.g. sales level, market share, profitability).

Hatfield *et al* (1998) also proved that partner assessment of joint venture goal achievement is positively and significantly related to joint venture duration survival. The positive correlation between these variables is, indeed, theoretically logical. That is, it takes time to achieve parents' strategic objectives, and survival is a desirable state. Failure to survive limits duration and the opportunity for further objective attainment. Although Glaister and Buckley (1998) only partly confirm Geringer and Hebert's findings, this is largely due to the differences in the nature of the samples investigated.

Measuring the parent's satisfaction vis-à-vis the performance of an IJV, the main advantage of this type of measure is its ability to provide information regarding the extent to which the IJV has achieved its objectives.

2.5.3. Parent vs. Joint Venture Perspectives

Several perspectives have been used to assess a venture's performance. Based on the argument that IJVs are established to fulfill their sponsors' strategic goals and objectives (Harrigan, 1986), a number of studies measured IJV performance from the parents' standpoint. Some researchers have used the performance assessment provided by a single parent (e.g. Ding, 1997; Lecraw, 1984), while others incorporated the perspectives of both parents (e.g. Beamish, 1985; Beamish and Banks, 1987; Harrigan, 1988; Schaan, 1983, Yan and Gray, 1994). Other studies reasoned that since JVs are free-standing organisational entities, it is more appropriate to evaluate their performance using the ventures' management perspective (Anderson, 1990; Killing, 1983). While partners often differ in their interests, the success of a joint venture does not necessarily lead to an increase in the performance of its parents either. In certain cases, some successful joint ventures end up competing with their parents.

In Osland's (1994) in-depth case studies, a bilateral approach was applied. Data were collected from personal interviews with managers from both parent

companies, joint venture operating managers from both partners, and government officials from both countries. However, Geringer and Hebert (1991) found that results do not differ substantially if one evaluates satisfaction based on 1) one partner 2) both partners, or 3) the joint venture management. Reliance on a single parent company respondent as a data source appeared to be a justifiable option when the respondent represented one of the key shareholders (i.e. the parent company executive with direct responsibility for the IJV). Hence, reliance on one respondent may not create serious bias.

2.6.   Relationship between Parent Control and Performance

The study of parent control in IJVs is not an end in itself. The rationale behind the studies of control lies in its impact on IJV performance. However, the control-performance relationship in IJVs is more complex than that in stand-alone organisations because IJVs are multi-player partnerships in which different players exercise different levels of control.

The control exercised by parent companies over a venture's operations represents a critical determinant of IJV performance and the attainment of parent company strategic objectives. Yet, particularly in comparison to wholly-owned subsidiaries, the exercise of effective control over these jointly owned and managed ventures often represents a more difficult proposition for parent companies. Parents

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are often unable to rely solely on their ownership position and related formal controls to ensure that their strategic objectives are adequately considered (Geringer and Frayne, 1990).

Concerning the content of control, researchers studying the relationship between parent control and IJV performance have mainly focused on two types of ventures: dominant-parent versus shared management ventures. The recent studies have considered them as two extreme ends of a continuum (Calantone and Zhao, 2000; Ding, 1997; Mjoen and Tallman, 1997), i.e. at one end of the control continuum are dominant-parent ventures and at the other end of the control continuum are shared management ventures.

The following two parts of this section will review the work of researchers who viewed parent control exercised over the IJV along the control-sharing continuum. The last part is a critique of previous studies and the incorporated approach employed in this study.

2.6.1. Arguments for Dominant Parent Joint Ventures

Based on his sample of thirty six IJVs in North America, Killing (1983) suggests that dominant-parent ventures tend to be more successful than shared management ventures. His measure of JV performance is the degree of parent satisfaction with JV performance. The rationale for his argument is that dominant-

parent ventures are easier to manage than shared-management ventures, and hence generate better performance. He argues that in dominant-parent ventures, the majority of functional managers will come from, or be selected by the dominant parent. They and the joint venture general manager will be evaluated on the same basis as plant managers for a wholly-owed subsidiary. In addition, the joint venture will be integrated into the dominant parent's management system. Therefore, joint venture is easier to manage; hence, it performs better. Indeed, the shared nature of IJV management makes IJVs difficult to manage. Typically, a variety of behaviour, cultural, and managerial differences between parent firms makes the effective management of an IJV quite a demanding task in terms of time and effort (Doz, 1996).

In his study of 153 MNEs subsidiaries in five countries of the ASEAN region, Lecraw (1984) further developed and generalised Killing's findings. He found a statistically significant positive relationship between IJV performance and the amount of control exercised by parents. From the MNEs' perspective, the percent equity ownership and IJV performance is U-shaped. High and low levels of equity ownership are associated with high levels of IJV success. To measure the extent of the parent's control exercised over the IJV, Killing used nine decision-making areas while Lecraw used eighteen decision-making areas weighted by their importance in the achievement of IJV performance.

Concluding their survey of 102 IJVs established by Norwegian MNEs, Mjoen and Tallman (1997) observed that the more control foreign parents had over their IJVs,

the better the IJVs performed. They argue that exercising more control over their IJVs, the parent would have stronger sources of firm-specific advantages than the parents exercising less control. Therefore, the IJVs where parents have more control should exhibit superior performance.

Similarly, through examining thirty eight Sino-American IJVs in China, Ding (1997) found that dominant management control exercised by foreign partners had a positive impact on the perceived JV performance. The foreign parents need to notice that the extent of managerial control they exercise over the JVs' activities will have significant impact on the possibility of meeting their strategic objectives. In order to measure the extent of overall control exercised by MNE parents, Ding used ten decision-making areas comparable to those of Killing (1983).

Lee and Beamish (1995), by investigating thirty one IJVs established by Korean MNEs, also found results supporting a positive relationship between foreign parents' control and IJV performance. The parent control is measured by assessing the degree of the parent firm's influence in decision making regarding fourteen decisions. Their study is unique in that IJVs included in their sample are formed between firms from emerging market countries.

Osland and Cavusgil's (1996) in-depth analysis of U.S.-Chinese IJVs concluded that US managers revealed a pattern of being more comfortable and more satisfied when maintaining dominant control in IJVs. From the perspective of

efficiency, dominant control can be perceived as more efficient than shared control. The transaction costs associated with opportunistic behaviour and uncertainty are minimised as there is less interpartner conflict in IJVs where one parent makes the business decisions. Coordination and monitoring costs are lower when one party manages the business functions. Furthermore, control is a means to reduce the risks associated with the uncertainty of a relatively unknown, potentially ill-equipped, developing country partner managing an activity.

Yan and Gray (1994) provide another set of arguments concerning the relationship between control and company performance. Using the findings of case studies, they proved that dominating partner control would only promote the controlling partners' objectives while balanced control will generate higher satisfaction for all the partners. However the contractual obligations, trust and commonality of goals between partners would help the expectations of both partners even under dominant partner control. In their later study of ninety Sino-U.S. IJVs in China, Yan and Gray (1997) confirm the positive correlation between IJV performance and parent control over operational areas of IJV management. They suggest that the more control a parent exercises, in comparison to the other partner, over the joint venture's routine operations, the greater the extent to which this parent is able to achieve its strategic objectives.

Empirically investigating ninety one Sino-Japanese, one hundred twelve Sino-Korean, and one hundred nine Sino-U.S. IJVs, Calantone and Zhao (2000) also found

evidence for MNE parent-dominant ventures. Despite the insignificant Japanese result, their findings from Korean and U.S. samples confirm the previous research on MNE joint ventures in developing countries that foreign parents tend to have high performance if they can have more control on joint ventures in an unstable market such as China. They further suggest that performance is likely to be improved if foreign partners can control the major functional areas by applying their advanced technology. In recent research on foreign-Singaporean international joint ventures, Pangarkar and Klein (2004) also found a beneficial relationship between control and IJV performance.

In summary, the aforementioned empirical studies support the view that the control-performance relationship is positive and direct. They consider that the equal division of control between the partners leads to coordination problems and transaction costs that ultimately reduce the value of the venture. In essence, if one partner has dominant control, decisions will be less time consuming and easier to make. Dominant control also is a mechanism for reducing the risks associated with coordination and opportunistic behaviour, and, consequently, for minimising transaction costs (Geringer and Hebert, 1989). Thus, as is argued by this stream of studies, foreign parents exercising more control should exhibit higher performance than parents exercising less control.

2.6.2. Arguments for Shared Management Joint Ventures

Tomlinson (1970), in his early examination of the joint venture process in international business, looked at the control-performance link. He found that "higher levels of return were obtained from joint venture investments by UK firms with a more relaxed attitude toward control. This casts some doubt upon the theory that control is necessary in order to improve the operational effectiveness of a joint venture" (p.63). Tomlinson feels the MNEs should not insist on dominant control over the major managerial decisions and that the sharing of responsibility with local associates will lead to a greater contribution from them and in turn a greater return on investment. However, he didn't explicitly indicate the relationship between dominant control and performance.

Beamish (1985) first presented evidence against the argument for dominant-parent ventures. He observed a strong correlation between unsatisfactory performance and an MNE parent's dominant control in his sample of IJVs in developing countries. He applied the same control measure as Killing (1983). His theoretical argument for shared management ventures, which derives from organisational learning, is that sharing control with a local partner is a vehicle for tapping country-specific advantages embedded within a local partner. Therefore, the more control an MNE parent shares with a local partner, the more country-specific advantages the MNE parent will acquire, and superior performance will result.

In his later investigation of twelve previous studies, supplemented by his own study of twenty two Sino-foreign IJVs, Beamish (1993) also observed that shared management ventures have greater success than dominant-parent ventures. He concluded that the "unique economic structures, uncertain political environment, unfamiliar culture in PRC are far removed from the experience of most western firms and managers as to make a dominant control extremely risky. Similarly, the lack of managerial skills by the Chinese makes dominant control by them equally risky." (p.40). Chinese managers, unfamiliar with operating a business under competitive market conditions or current global business standards, are seen as ill-equipped to compete against global companies who are far more experienced in designing effective marketing strategies and in manufacturing high quality products efficiently. Moreover, many of the Chinese parent company partners are government agencies who provide capital, but who have never managed a profit-oriented business.

Shan (1991) argues that US partner companies prefer to have minority equity in IJVs in China as it helps to align the interests of local partners to those of the IJVs. It is particularly essential in China because of the high level of uncertainty in political, bureaucratic and legal situations. In that context, achieving dominant control may not be the best way to generate satisfactory results for IJV operations.

Hebert and Beamish (1997) also investigated the relationship between IJV control and performance and found that shared ownership IJVs often exhibit higher performance. Specifically, they found that shared control over operational and

strategic decisions was positively related to performance, while technological autonomy was negatively related to performance. The authors argue that categorising control under three dimensions (operational, strategic, and technological) may help explain why previous research has resulted in contradictory findings.

It is noticeable that the joint ventures used in these studies were formed between developed- and developing-country partners. There tends to be an association between satisfactory performance and less dominant control by the foreign partner. The argument is that a sharing of control with local partners will lead to a greater contribution from them which can assist in coping with circumstances that are unfamiliar to the foreign partners, and therefore result in a higher performance.

2.6.3. Critique of Control-Performance Relationship

Given the diversity in the conceptualisations and operationalisations of IJV control and performance, it is not surprising that extant research in the IJV control-performance relationship has generated mixed results. As is evident from the studies reviewed, there is no consensus about the relationship between parent control and IJV performance. Even the studies of IJVs located in the same country have produced conflicting results. For example, in China, Osland and Cavusgil (1996), Ding (1997), Yan (2000), and Calantone & Zhao (2000) found results supporting Killing's (1983) dominant-parent hypothesis while Beamish (1993) found evidence to the contrary.

Researchers have conceptualised parent control in terms of the extent of control exercised by MNE parents. They have attempted to correlate IJV performance with the level of overall control either exercised by MNE parents or shared with local partners. They implicitly assume that parents seek overall control over the IJV's management rather than specific activities of control. Some scholars suggest that parent control tends to be selective and exercised over specific activities rather than over entire activities of the joint venture management. For example, in his in-depth study of eight Sino-US JVs, Osland (1994) explored the relationship between control of key functions and performance. He found that the more control the US parents have over functions that they considered to be critical (i.e. marketing, pricing), the more satisfied they were with their IJVs in China.

However, the researchers in this research stream did not further explore the link of specific divisions of control with IJV performance. Therefore, in examining the relationship between parent control and IJV performance, this study incorporates parent control as the choice of extent of control and focus of control (i.e. strategic control and operational control).

It is important to point out that consistency in the unit of analysis in conceptualising and operationalising control and performance is necessary in order to expect explainable empirical results. For example, if control is conceptualised from the IJV management's perspective, performance should be defined in terms of the IJV management's goals. Similarly, if performance is assessed by using one partner's

criteria, control should be conceptualised from the same partner's viewpoint. In this study, since control is conceptualised from the parent perspective, the venture's performance is therefore characterised as the level of attainment of the parent's strategic objectives.

2.7.   Chapter Summary

This study concentrates on a particular form of international market entry: international joint ventures. The establishment of IJVs is a strategic option for multinational corporations, especially those pursuing global strategies. IJVs are critical to the maintenance of competitive advantage because they are increasingly employed to exploit an organisation's core markets and technologies. Despite their increased popularity and strategic importance, IJVs have frequently failed to achieve the strategic objectives of their parent firms.

Diverse reasons have been suggested to explain the strategic objectives for forming international joint ventures (Contractor and Lorange, 1988; Glaister and Wang 1993; Harrigan, 1985; Hennart, 1991; Kogut, 1988b; Mead, 1994; Yang and Lee, 2002; Zhang, 1997). Based upon transaction costs, market power, and organisational learning, the foreign partner's objectives are broadly classified in three categories in this study. In essence, the three theories are not competing explanations of the strategic objectives, but address the same issue from different perspectives.

Efficiency-seeking objectives imply the partner's intention of exploring efficiency by reducing costs, spreading risks, and pursuing global operational synergies. Market-developing objectives are more concerned with how to obtain fast market access, managing competition, overcoming government barriers. Knowledge-seeking objectives include, through the joint venture's interactive setting, the foreign partners acquiring the local partner's country-specific knowledge and local market knowledge.

The issue of control in IJVs is much more complex than in wholly-owned subsidiaries, since two or more parents may exert influence on the venture's activities for divergent objectives. A review of literature reveals that there is no consensus as to the conceptualisation and operationalisation of IJV control. Three dimensions of control are discussed. This study incorporates parent control as the choice of extent of control and focus of control.

Given its problematic nature, the performance of IJVs is difficult to define and measure. Even though performance and its relationship with control have been extensively studied (Beamish, 1993; Calantone and Zhao 2000; Chalos and O'Connor, 1998; Ding, 1997; Geringer and Hebert, 1991; Luo, 2001; Luo and Peng, 1999; Wang *et al*, 1999), the results are inconclusive. Two dimensions of performance measurement are discussed: subjective and objective measures, from the perspectives of the parents.

The extant empirical studies produce controversial results on the relationship between parent control and IJV performance relationship. The controversy is chiefly generated from the different conceptualisations of control and performance, and the research context.

This literature review on partners' strategic objectives, parent control and IJV performance provides a basis for the development of a conceptual framework. This is discussed in the next chapter. A number of hypotheses are also proposed.

Chapter 3. RESEARCH HYPOTHESES

3.1. Chapter Introduction

From the literature review in the preceding chapter, three categories of strategic objectives for establishing international joint ventures have emerged. Parent control and IJV performance are conceptualised. This chapter firstly presents the research framework. The three categories of IJV strategic objectives are developed from three theoretical strands respectively as discussed in Chapter 2. Their relationship to parent control and performance is indicated. A number of hypotheses are proposed and discussed subsequently.

3.2. Theoretical Framework

Regarding strategic objectives of international joint ventures, vast and growing studies have emerged. The studies are compounded by the diversity of research lenses. The critical issues explored include: 1) transaction cost economics, 2) market power theory, 3) organisational learning theory, 4) motivations of IJVs 5) conceptualisation of IJV control, 6) IJV performance, and 7) the linkage between parent control and IJV performance (these are discussed in detail in Chapter 2). Although each individual

study may cast new light on some aspects of these important issues, taken together, extant research has been highly fragmented in orientation. Furthermore, a clear understanding of the relationship between IJV control and performance is constrained by inconclusive and inconsistent research results. Therefore, further research efforts are required to incorporate all major theoretical dimensions of IJV strategic objectives, control and performance into an integrated research framework, which may be examined and empirically tested in an integrative study.

Based on the transaction costs, market power and organisational learning theories, and the review of literature, a research framework for this study is designed and presented in Figure 3.1. The strategic objectives are the inputs, which are categorised based upon three main theoretical strands, whereas performance is the output. Control is the process which ensures the parent firms effectively attain their objectives.
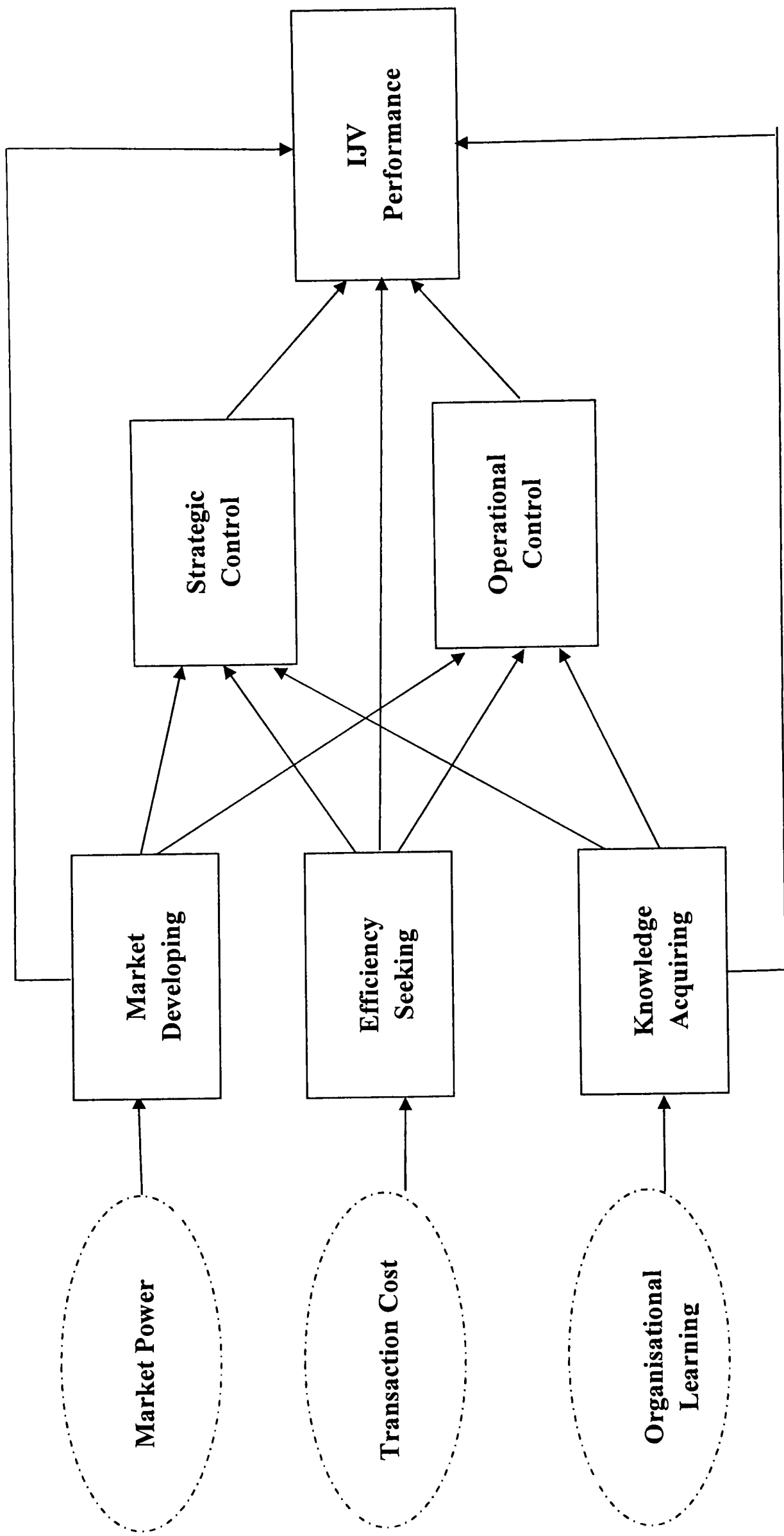
Figure 3-1 Theoretical Framework of Strategic Objectives, Parent Control and IJV Performance

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Putting more emphasis on the benefit side of a transaction, market power theory regards joint ventures as a form of defensive investment by which firms deter entry through preempting competition, and enhancing market power in the context of competitive rivalry and overcoming government barriers (Kogut, 1988b).

By focusing on the cost aspect of a transaction, the transaction cost logic explains joint ventures in terms of market failure for intermediate inputs, asset specificity, and high uncertainty over specifying and monitoring performance. It posits that firms achieve efficiency by minimising production and transaction costs.

In the organisational learning view, firms entering a foreign market not only exploit their existing competitive advantages, but also develop new resources or build new capabilities through learning and knowledge acquisition. A joint venture is used for the transfer of organisationally embedded knowledge that cannot easily be blueprinted or packaged through licensing or market transactions. That is the joint venture is used as a vehicle through which organisational knowledge is exchanged and imitated. Although a partner does not need to have very specific learning objectives when they set up the joint venture, acquiring other's knowledge is one of the important motivations.

A firm's objectives are its strategic intention, and control is an element of its structure. It may be inferred that the parent's motivations for forming an IJV affect its degree of control over the IJV, thereby influencing its performance. Geringer and Hebert (1989) also assert that control can be determined by the parent's strategic objectives. In other words, a given partner's perception of the importance of control depends mainly on its strategic mission for the cooperative arrangement (Root, 1988).

The parent's objectives for forming an IJV, therefore, will have direct effects on the extent of control.

In IJVs, the exercise of effective control may prove to be difficult and complex. Firms can not rely solely on their ownership position. They also need to relinquish some control over their activities and resources due to the fact that exercising control is not free. It costs organisation resources (EIU, 1995). Firms establish JVs to achieve their strategic objectives. It is logical to measure IJV performance by the perceived degree of objective attainment and overall satisfaction with joint venture performance.

3.3. Research Hypotheses

Joint venture is often considered the fastest way to get a foothold in a new market since existing players have expertise in dealing with the domestic environment (Harrigan, 1988a; Kogut, 1988b). A joint venture motivated by the market is intended to reduce the market power of rivals or enhance the firm's own market power (Contractor and Lorange, 1988; Kogut, 1988b). Timing will be an important part of competitive strategy in this situation because firms which move first can gain access to better partners. If the ventures are "exclusive", firms could gain a competitive advantage which late entrants could not capture as easily.

Tallman and Shenkar (1994) assert that strategic control should be important to foreign investors who need to implement their fast market entry strategy and align the IJV with overall and long-range goals. Local partners in developing countries generally expect the joint venture products to be exported to earn foreign exchange.

While the foreign partner's strategic objective is market-oriented, access to these local markets, more control is required at a strategic level.

Local partners' contributions in market access at operational level are often very critical for successful IJV performance in emerging economic regions (Luo, 1997; Makino and Delios, 1996). Isobe *et al* (2000) find that the extent of a foreign firm's control over an IJV was negatively associated with early entry. This result implies that foreign parents' decisions regarding the choice of operational control may be based on a tradeoff between the potential risks of leakage of proprietary knowledge and the potential contributions from local IJV partners with respect to local market access. Foreign firms strictly pursuing dominant operational control over their local partner may fail to gain their local partner's assistance for entry into a local market and. Therefore, it is proposed that:

H1a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between fast market entry and satisfaction with performance in relation to this objective: when the strategic control is high, fast market entry and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, fast market entry and satisfaction with performance in relation to this objective is negatively related.

H1b: Operational control that the foreign parent exercises over IJV will moderate the relationship between fast market entry and satisfaction with performance in relation to this objective: when the operational control is high, fast market entry and satisfaction with performance in relation to this objective is negatively related; when the operational control is low, fast market entry and satisfaction with performance in relation to this objective is positively related.

In coping with the intensified international competition and the challenges of globalisation of the world's economies, IJVs represent an effective approach in competing globally. Foreign firms face pressure from other foreign competitors in the global market. By forming a joint venture with local partners, foreign firms can blunt the penetration of other foreign firms into the market (Baird *et al*, 1990).

As emerging countries enter a time of economic transition, MacMillan (1983) suggested that the first entrants from each industry group into these emerging markets would accrue long-term benefits. Specifically, these firms have an opportunity to preempt future competition by gaining the most efficient distribution channels or access to raw materials or by capturing a brand loyal customer following. Pre-empting other foreign competitors are not immediate concerns of IJV local partners. But the foreign partners are more likely to govern the IJV strategic direction in order to manage potential competition. Exercising operational control over the functions in joint ventures, such as production and marketing, is an effective way to maintain competitive advantage against competitors. Therefore:

H2a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between managing competition and satisfaction with performance in relation to this objective: when the strategic control is high managing competition and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, managing competition and satisfaction with performance in relation to this objective is negatively related.

H2b: Operational control that the foreign parent exercises over IJV will moderate the relationship between managing competition and satisfaction with performance

in relation to this objective: when the operational control is high, managing competition and satisfaction with performance in relation to this objective is positively related; when the operational control is low, managing competition and satisfaction with performance in relation to this objective is negatively related.

The literature suggests that foreign partners are likely to rely on local partners to cope with pressure from government and trade barriers (Beamish, 1993; Mjoen and Tallman, 1997). IJVs are viewed by the developing country authorities as the preferred form of foreign investment because they provide an opportunity for the transfer of advanced technology and management skills to the economy and lead to increased exports (Management World, 1996). For example, many Sino-foreign joint ventures were founded to overcome governmental restrictions (Beamish, 1993; Child and Faulkner, 1998; Luo, 1997).

Young *et al* (1989) contend that the rationale behind the adoption of joint venture as an entry mode generally can be attributed to the MNE's intention to overcome various local barriers due to its lack of local expertise, its lack of complementary resources, or merely because of the regulations imposed by the local authorities.

Vanhonacker (1997) considers that dominant parent control joint ventures are appropriate when a company takes on a partner solely in response to pressures from a host government. In such a situation, foreign companies often prefer to find a passive local company that (1) has no knowledge of the product, (2) is willing to be a passive investor, 3) is neither a government agency nor controlled by the government. If the

local partner never learns the joint venture's business, the dominant foreign parent can expect good IJV performance.

Some MNEs strive to avoid joint ventures, but when they do enter into them because of the requirements of host governments, they strive to adopt their own systems, based upon product differentiation, aggressive promotion and advertising, selling, and emphasis upon trademarks and brand names (Luo, 1997). They consider control of the key operational elements in a joint venture essential in their type of business.

H3a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between overcoming government barriers and satisfaction with performance in relation to this objective: when the strategic control is high overcoming government barriers and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, overcoming government barriers and satisfaction with performance in relation to this objective is negatively related.

H3b: Operational control that the foreign parent exercises over IJV will moderate the relationship between overcoming government barriers and satisfaction with performance in relation to this objective: when the operational control is high, overcoming government barriers and satisfaction with performance in relation to this objective is positively related; when the operational control is low, overcoming government barriers and satisfaction with performance in relation to this objective is negatively related.

Equipped with modern communications and transportation, MNEs increasingly adopt a global strategy as their favoured strategy. When a MNE pursues a global strategy, it is critical that all, or almost all, activities are coordinated centrally, and such central coordination can be achieved only with full control (Kim and Hwang, 1992). The empirical study conducted by Kim and Hwang (1992) confirmed that an MNE prefers full-control modes because they enhance the MNE's ability to ensure that strategic actions taken by different foreign subsidiaries are consistent with the global strategy.

Harrigan (1988) argues that firms that pursue global strategies prefer to coordinate closely all of the pieces of their global systems. Shared-equity ventures often restrict sponsoring firms' abilities to enjoy the close coordination they seek in global strategies. At the strategic level, a firm attempting to coordinate its operations in a global market may seek to insure that the joint venture fits in with these other activities. Without majority control of the venture, this may cause problems (Dymsza, 1988). Similarly, MNEs' managers embrace ventures where they anticipate that synergies with their firms' wholly owned business units can be exploited, or where they can attain scale of integration economies through them. However, synergies and economies can not be realised unless the dominant managerial control systems are in place. Indeed, The MNE looks upon the joint venture as one piece of a complex global web, and it is not likely to allow that single piece to dictate its own policies where other pieces or the web itself might be compromised.

One primary reason for MNEs to expand to China is to leverage the shared costs of manufacturing and marketing for global competitive advantage (Luo and Peng, 1999; Tse et al, 1997). MNEs such as Hewlett Packard, IBM, Procter &

Gamble, and Motorola are increasingly entering the Chinese market, concentrating production by taking cost advantages through lower labour costs and exporting their products worldwide. From their perspective, subsidiaries in China have to be prepared to accept centrally determined decisions as to what they should produce, how much they should produce, and how their output should be priced for transfer between operations. In such global industry settings, the need for full control may be more pressing than in other circumstances. Rajan and Pangarkar (2000) empirically highlight the importance of global strategy by Singaporean MNEs in their propensity of setting up wholly-owned subsidiaries in China. In short, achieving strategic needs in an interdependent global system necessarily requires a high degree of control over the operations of different national affiliates (Deng, 2001). Thus, the arguments lead to the following hypotheses:

H4a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between seeking global synergy and satisfaction with performance in relation to this objective: when the strategic control is high seeking global synergy and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, seeking global synergy and satisfaction with performance in relation to this objective is negatively related.

H4b: Operational control that the foreign parent exercises over IJV will moderate the relationship between seeking global synergy and satisfaction with performance in relation to this objective: when the operational control is high, seeking global synergy and satisfaction with performance in relation to this objective is positively related; when the operational control is low, seeking global synergy

and satisfaction with performance in relation to this objective is negatively related.

From the investor's perspective, projects involving more capital are inherently riskier than smaller projects. The financial risk for partners investing in an IJV is likely to be greater in emerging economies because of their institutional limitations (Child and Faulkner, 1998; Harrigan, 1988a; Luo, 2001). Risk reduction attempts to reduce risk by bringing it under apparent control. Firms tend to do this by securing direct control over their affiliates and sufficient external influence so as to enact critical aspects of the environment (Child and Tse, 2001).

Concluding from 132 Sino-Singaporean joint ventures, Wang *et al* (1999) indicated that it was important to maintain control in the financial aspect of the IJV if the projects were very large. As such, the foreign companies sent financial controllers to the joint venture to provide training in modern accounting and financial methods. At the same time, the financial controller could act as a "policeman" for the foreign parent firms. Therefore, if a partner perceives that there is a high financial risk in entering an IJV, this may dispose it towards trying to secure the investment by seizing more control on the strategic level (Pan, 1996).

Although China is currently undertaking a series of aggressive reform measures to transform the traditional centrally planned economic system into a market-oriented economic system, state-owned enterprises still possess enormous power upon which foreign investors may wish to rely. Due to the high financial requirement of large projects, the choice of local partner is often limited to state-owned enterprises. But it may not be an appealing option to let the Chinese firm be

the dominant partner of the cooperative arrangement because of the nature of the economic system and state-owned firms in China. Since a state-owned partner would generally have little experience managing a for-profit organisation, the foreign partner would be more than willing to ensure its dominance in strategic decisions while leveraging its local counterpart to manage operational issues, such as handling external stakeholders (Tsang, 1998). The state-owned companies have direct contact with government departments that control some resources, and can explain relevant policies differently and favourably. These are very valuable to the IJV operations. Therefore:

H5a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between spreading financial risk and satisfaction with performance in relation to this objective: when the strategic control is high spreading financial risk and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, spreading financial risk and satisfaction with performance in relation to this objective is negatively related.

H5b: Operational control that the foreign parent exercises over IJV will moderate the relationship between spreading financial risk and satisfaction with performance in relation to this objective: when the operational control is high, spreading financial risk and satisfaction with performance in relation to this objective is negatively related; when the operational control is low, spreading financial risk and satisfaction with performance in relation to this objective is positively related.

The political environment of a host country is a critical dimension in distinguishing among respective opportunities in a foreign market. The political environment may be related to international business through the concept of political risk and the greater the exposure is to political risk in emerging and developing countries, the greater the increase in an organisaiton's total risk (Merchant, 2000).

Teece (1986) identifies political risk in particular as an important environmental factor affecting the relative efficiency of alternative governance structures: whereas wholly-owned subsidiaries involve a direct connection between the MNE and the host government, and this in turn increases the likelihood of hold-up after the firm has made sunk investments, firms using JVs are less susceptible to political risk because the local partner acts as a buffer. Several empirical studies have confirmed a negative relationship between political risk and the firm's control of foreign affiliates (e.g., Fladmoe-Lindquist and Jacque, 1995).

Yan and Gray (1994) discovered that at the early stage of investment in China, political risk is one of the most important concerns. Boisot and Child (1999) argue that one response to the risk presented by environmental complexity and uncertainty is to attempt to reduce it through the exercise of greater control. Many large foreign companies in China have been adopting this approach.

In China, reducing reliance on local partners and external relationships will lower the transaction costs of social exchange, but it is likely to raise the transaction cost of exercising direct operational control using expensive expatriates. Moreover, this policy could be of limited effectiveness in reducing risk because it places low value on the support of local partners and may also alienate powerful officials in the institutional environment. These factors point to a distinct limitation in the ownership

advantages enjoyed by foreign firms operating in China, which may contribute significantly to their often disappointing performance in that country (Child, 1994). Thus:

H6a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between avoiding political uncertainty and satisfaction with performance in relation to this objective: when the strategic control is high avoiding political uncertainty and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, avoiding political uncertainty and satisfaction with performance in relation to this objective is negatively related.

H6b: Operational control that the foreign parent exercises over IJV will moderate the relationship between avoiding political uncertainty and satisfaction with performance in relation to this objective: when the operational control is high, avoiding political uncertainty and satisfaction with performance in relation to this objective is negatively related; when the operational control is low, avoiding political uncertainty and satisfaction with performance in relation to this objective is positively related.

The foreign partners must tradeoff control while the local knowledge transferring process is being undertaken (Datta and Rasheed, 1993). The tradeoff in learning is between the acquisition of complementary expertise that other partners might be willing to transfer to the IJV and ceding power over decisions relating to critical resources to the resource providers (Borys and Jemison, 1989).

Yan and Luo (2001) argue that when a multinational firm aims at acquiring country-specific knowledge, it may be either lacking bargaining power in negotiating for a majority ownership or reluctant to take a majority position in the venture because of its lack of knowledge about the host country. Lyles and Salk (1996) found that IJVs with 50/50 ownership control had significantly higher levels of knowledge acquisition than majority-controlled IJVs.

Inkpen and Beamish (1997) also suggest that a local partner will possess greater bargaining power over and be less dependent on its foreign JV partner when the foreign partner possesses little knowledge of local market conditions. In support of this view, Makino and Delios (1996) find that the presence of local partners had a significant and positive impact on the financial performance of an IJV when the parent firm had limited experience of the local operation. Information about the local economy, politics, culture and business customs, consumer demands and tastes, the labour force, infrastructure, raw materials, and other factors required for the operation of joint ventures is likely to be delegated to the local partner (Makino and Delios, 1996; Vanhonacker and Pan, 1997). These findings generally imply that foreign firms tend to allow their local IJV partner to keep a high level of control within the ventures when they are keen to learn about unfamiliar local markets.

China is a developing transition economy that represents complex and unfamiliar conditions for foreign investors (Boisot and Child, 1999). The main ways that Chinese partners can help their IJVs to succeed is in providing country-specific knowledge, contacts with regulatory authorities, and management of the local workforce. The local firm has many years experience in China and can provide access to its distribution system, to managers who are competent in the local environment,

and to its knowledge of how best to deal with government agencies. Moreover, the costs of employing expatriate managers to enforce operational control in Sino-foreign IJVs can very substantially eat into profits (EIU, 1995). Therefore, the foreign partner should not take over the operational control.

For many European enterprises, a joint venture in China is their first experience with a planned economy in a developing country. Local knowledge is likely to reside with the Chinese partner. Foreign partners are likely to exercise less control over the joint venture, because they need to gain knowledge from the Chinese partner in the process of operation. The foreign partners are even likely to delegate the Chinese partner to make operational decisions because they need to gain knowledge from the Chinese partner. However, knowledge acquiring must be selective. Giving away full control will lead to inefficient learning. The foreign parents are more likely to seize strategic decisions. Therefore,

H7a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between acquiring country-specific knowledge and satisfaction with performance in relation to this objective: when the strategic control is high acquiring country-specific knowledge and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, acquiring country-specific knowledge and satisfaction with performance in relation to this objective is negatively related.

H7b: Operational control that the foreign parent exercises over IJV will moderate the relationship between acquiring country-specific knowledge and satisfaction with performance in relation to this objective: when the operational control is high, acquiring country-specific knowledge and satisfaction with performance in

relation to this objective is negatively related; when the operational control is low, acquiring country-specific knowledge and satisfaction with performance in relation to this objective is positively related.

As an important strategy, international joint ventures have been increasingly used by MNEs to improve their local market knowledge (Tsang, 2002). When a firm decides to market and distribute its product in the foreign market it must obtain access to physical facilities (e.g. warehousing, local repair and service facilities), and, most importantly, acquire marketing expertise in the foreign market and disseminate information about its product (Hennart, 1988; Buckley *et al*, 1990). From the viewpoint of the local partner's management, it is understandable that maintaining control over distribution channels and marketing is one way in which its continuing contribution to the joint venture can be assured.

Foreign firms entering China may have particular concerns about the level of uncertainty in what is generally regarded as a highly complex and difficult to understand marketplace. The exercise of control will be moderated when the foreign partner is to enter into a joint venture because of a lack of competitive expertise in the local marketing context. While the strategic level of control should be guarded, it might be problematic if the foreign partner lacks managers with sufficient knowledge of local markets, but intends to exercise great control over operational practices. Therefore, it is proposed that:

H8a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between acquiring local marketing knowledge and satisfaction with performance in relation to this objective: when the strategic control is high

acquiring local marketing knowledge and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, acquiring local marketing knowledge and satisfaction with performance in relation to this objective is negatively related.

H8b: Operational control that the foreign parent exercises over IJV will moderate the relationship between acquiring local marketing knowledge and satisfaction with performance in relation to this objective: when the operational control is high, acquiring local marketing knowledge and satisfaction with performance in relation to this objective is negatively related; when the operational control is low, acquiring local marketing knowledge and satisfaction with performance in relation to this objective is positively related.

Relationship between strategic objectives and parent control

If a foreign partner has entered into a joint venture, market development will require continued commitment, for example in technology infusion (Martinsons and Tseng, 1995). In essence, the risks associated with the dissipation of technology know-how are cited as an issue of particular concern to MNEs entering China that has had a history of infringement of intellectual property rights (Ding, 1997). Dissipation of proprietary knowledge may have serious effects on the competitive position of a foreign parent, possibly creating new competitors or damaging the parent's over efficiency (Prahalad and Hamel, 1991). Therefore, market development considerations may eventually push MNEs to choose full control mode in China.

Similarly, Lecraw (1984) found that marketing-intensive MNEs often choose to exploit their firm-specific advantages by internalising the transaction. Such firms may have the ability to develop a marketing package that is independent of the country in which they operate, may place little value on inputs from local partners in the form of marketing expertise and access to channels of distribution, and may fear loss of control over product quality. Hence,

H9: Foreign partner pursued market-developing objectives are positively related to strategic control (H9a) and operational control (H9b).

Transaction cost analysis focuses on organisational efficiency, specifically where market transactions involve significant uncertainty. For example, projects involving technological innovation will feature uncertainties associated with completion and performance. In such cases, firms are often prepared to trade potentially some level of management control for a reduction in uncertainty.

The empirical study conducted by Kim and Hwang (1992) confirmed that an MNC prefers high-control modes because they enhance the MNC's ability to ensure that strategic actions taken by different foreign subsidiaries are consistent with the global strategy. Kohli and Jaworski (1993) argue that too high a management control from the headquarters tends to have a negative effect on the efficiency orientation at subsidiary levels. Therefore, MNCs might retain strategic control over the IJVs to assure implementation of global strategy, and relinquish operational control in order to facilitate production and organisation efficiency in the IJVs. Thus,

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H10: Foreign partner pursued efficiency-seeking objectives are positively related to strategic control (H10a) and negatively related to operational control (H10b).

The familiarity with local environment is positively related to control (Groot and Merchant, 2000). Knowledge-acquiring based IJVs are likely to receive more autonomy from parent companies. An IJV's intention to seek new knowledge depends on its ability to monitor, search for and apply new knowledge to its existing knowledge base (Hamel, 1991), that is, on its absorptive capacity. The absorptive capacity is an important factor in determining whether new knowledge is acquired. A flexible and autonomic organisational structure and approach to management is thought to be associated with higher capacities for knowledge acquisition (Lyles and Baird, 1994).

However, although foreign companies generally intend to acquire their local partners' know-how, they are also worried about losing their own knowledge-based resources in a highly integrated operation of a joint venture. Thus, they will prefer to retain a certain level of control in order to minimise the likelihood of unintended transfer of resources (Das and Teng, 2000). Thus,

H11: Foreign partner pursued knowledge-acquiring objectives are positively related to strategic control (H11a) and negatively related to operational control (H11b).

Relationship between parent control and IJV performance

In examining the relationship between control sharing and IJV performance, parent control exercised at the strategic level of the IJV's management is

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distinguished from control exercised at the operational level of the IJV's management. The strategic level of control is defined as the control exercised over the managerial issues associated with the long-term development of the IJVs, whereas the operational level of control deals with the managerial issues associated with the IJV's ongoing operation (Child *et al*, 1997; Mjoen and Tallman, 1997; Yan and Gray, 1997). The measurement of strategic and operational control is provided in section 4.6.2.

As control allows the parent to integrate the venture's activities with the overall strategy and activities of the parent (Gullander, 1976), having control over an IJV means that it is more likely that an individual partner's objective for the IJV will be met (Groot and Merchant, 2000). Yan and Luo (2001, p.89) define IJV control as "the mechanism and process in which the foreign and local sponsoring organisations, as well as the venture management, influence the venture's strategic and operational decisions and regulate its business activities in order to meet the parents' strategic expectations".

From strategic control perspective, for example, if the foreign partner aims at long-term growth in the local market development while the local partner focuses on an immediate return on capital, conflict will occur whenever the venture makes a profit. The former will prefer reinvesting the earnings, whereas the latter will favour distributing the profit as dividends. In other words, who will decide how to use the profit? Such conflicts are often the case in Chinese international joint ventures (Child and Yan, 1999). The solution to this conflicting situation will greatly depend on which partner is in charge of the venture or on the division of strategic control. How strategic control is divided between parents will directly impact the joint venture's performance.

H12a: The extent of strategic control exercised by the IJV foreign parent is positively related to satisfaction with overall IJV performance.

Different levels of control are also immediately related to the extent to which their desired outcomes are achieved. Yan and Gray (1996), in their study of Sino-US joint ventures, assessed performance in terms of the extent to which joint venture general managers or deputy general managers perceived each parent company's strategic objectives to have been achieved. The results suggested that the higher the level of operational control a parent company exercises in the joint venture relative to its partner, the greater the extent to which that parent is perceived to be achieving its objectives. Thus:

H12b: The extent of operational control exercised by the IJV foreign parent is positively related to satisfaction with overall IJV performance.

Relationship between strategic objectives and IJV performance

Since different parent companies operate in different competitive environments, it is reasonable to expect that objectives that are important to one partner may not be equally important to the other partner. According to Habib and Burnett's (1989) findings, parent objective disparity positively correlated with conflict, and conflict negatively correlated with IJV performance. It can be inferred that parent objective disparity negatively correlated with IJV performance. Conversely, commonality in partners' objectives will positively relate to IJV performance. Theoretically, agency theory researchers suggest that when two economic agents do

not share the same set of objectives, agency costs will occur and the efficiency of the transactional relationship will decrease (Fama, 1980).

Foreign partner's market-developing objectives are more likely to accord with local partner's concerns (Groot and Merchant, 2000). Both foreign and local partners may be eager to develop markets and defend against competition. These objectives are more explicit and cause less conflict. Shared market-developing objectives leading to the success of IJV are desirable for both parent companies.

H13a: Market-developing objectives on the part of the foreign partner are positively related to the joint venture overall performance.

From efficiency-seeking perspective, an MNE may hope that the joint venture operates in a way that is optimal from the standpoint of its entire global network, not merely within the local market on which the domestic joint venture partner focuses. These differing objectives potentially threaten the independent strategies and may eventually lower joint venture performance.

H13b: Efficiency-seeking objectives on the part of the foreign partner are negatively related to the joint venture overall performance.

MNEs often enter IJVs expressly to provide a vehicle to learn about country-specific knowledge of doing business. This seems particularly true for management with little foreign experience, who might feel uncomfortable about their level of understanding with respect to government relations, labour recruitment and

management, or marketing and distribution techniques. However, as learning takes place over time, the advantages of the local partner begin to erode, and the MNE may begin to feel more confident about its abilities to handle these issues. In other words, with increased experience, a foreign firm will move up the learning curve and does not need the local knowledge that the native firms possess (Kogut, 1991). At such a time, MNEs are more likely to behave self-interestedly and may ask for a change in the IJV's strategic direction, which is more favourable to its own global strategies, but not necessarily to the joint venture itself.

H13c: Knowledge-acquiring objectives on the part of the foreign partner are negatively related to the joint venture overall performance.

The relationship between Hypotheses 9 to 13 and the theoretical framework presented in Figure 3.1 is given in Figure 3.2 below.
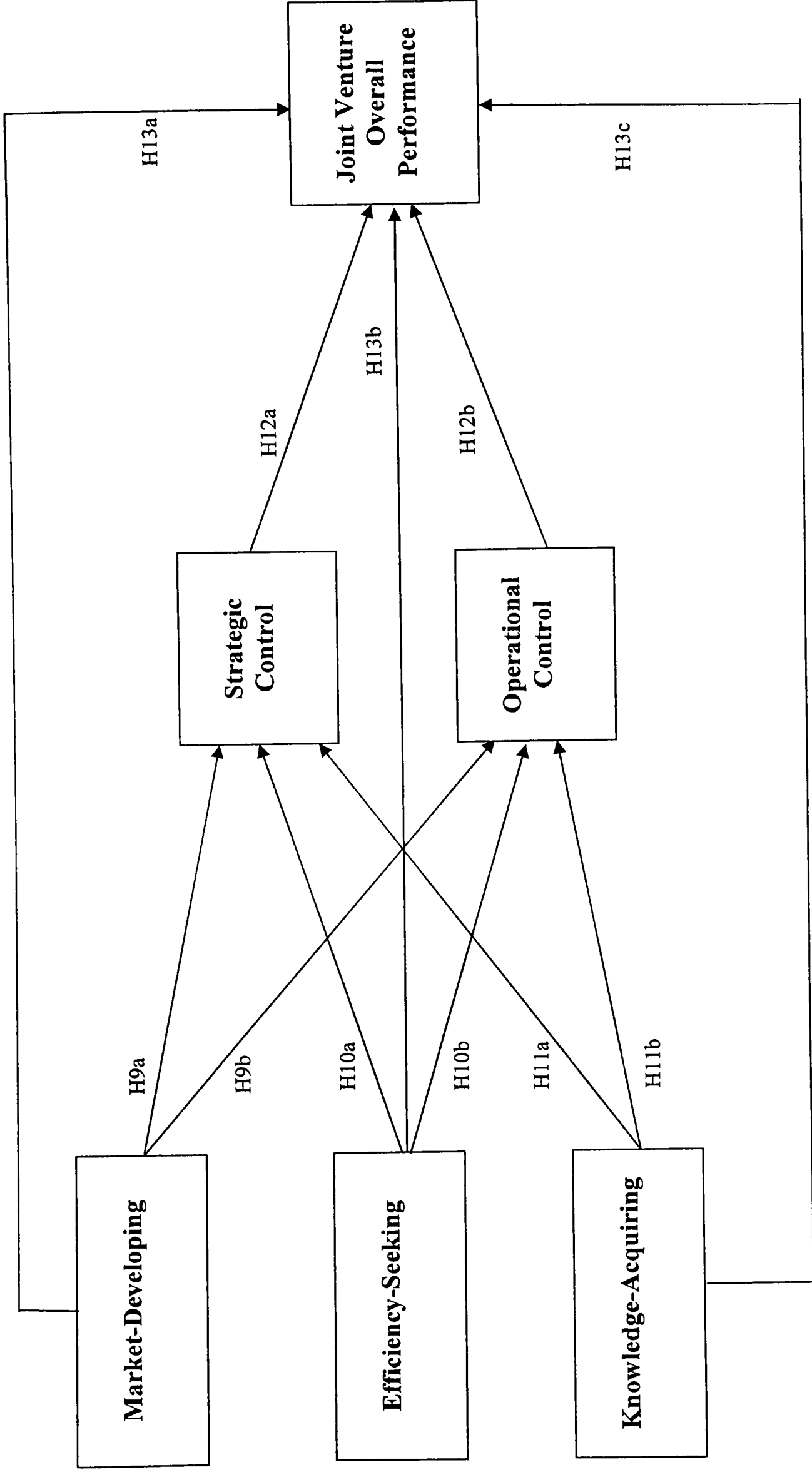
Figure 3-2 Summary of Relationships of Hypotheses 9-13 with Theoretical Framework

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Performance between categories of objectives

Given the varied foci of theoretical explanations of joint venture formation, a question arises as to whether the joint venture mode is more appropriate for achieving some objectives than others. Although theories suggest joint venture is favourable under certain circumstances, they do not address which objectives are more suitable. Harrigan (1988) has argued that the financial-pursuing objectives were more likely to take a longer time to realise than other categories of objectives since joint ventures were transitional strategies.

Luo and Peng (1999) argue that MNEs' such as IBM, Procter & Gamble, and Motorola, expansion into China is to leverage the shared cost of R&D, marketing, and manufacturing for global competitive advantage. They found that wholly-owned enterprises were more appropriate to pursue efficiency-seeking objectives in such global industry settings. The Chinese government now grants more and more foreign WOEs operating in the areas where equity joint ventures are currently approved and does not differentiate equity joint ventures from foreign wholly-owned subsidiaries in terms of financial policies, taxation, and regulations for licensing, quotas, and duties (Deng, 2001). Therefore, the performance of efficiency-seeking IJVs might be less satisfactory than other categories of objectives. Thus:

H14a: Where satisfaction with strategic objectives is concerned, on average, Market-developing objectives outperform Efficiency-seeking objectives.

H14b: Where satisfaction with strategic objectives is concerned, on average, Knowledge-acquiring objectives outperform efficiency-seeking objectives.

After two decades of high economic growth (around 10% annually), in terms of purchasing power parity, China has become the second largest economy in the world behind the U.S. (Economist, 2000). In addition, with its formal entry into the World Trade Organisation (WTO) in December, 2001, China is likely to accelerate its economic momentum. The increased market demand and potential are very attractive to foreign companies. Joint ventures are the most appropriate mode to quickly enter the market and manage competition (Zhang, 1997). Joint ventures also are necessary means to attain MNEs' knowledge-acquiring -related objectives. However, knowledge, especially tacit knowledge, takes considerable time to learn and then transfer back to parent companies. Therefore, its performance might be less obvious than market-developing objectives.

H14c: Where satisfaction with strategic objectives is concerned, on average, Market-developing objectives outperform knowledge-acquiring objectives.

Parent satisfaction with performance in relation to objectives and overall IJV performance

Foreign parent companies intend to attain diverse strategic objectives through joint ventures. Therefore, from their point of view, satisfaction with attainment of objectives is one of the criteria that evaluate whether a joint venture is successful. On the other hand, IJV is an independent organisation which is difficult to manage (Killing, 1983). Parent satisfaction with overall performance of IJV per se is important since it is the vehicle to carry out parent's strategies.

If a joint venture parent firm is satisfied with the achievement of strategic objectives, it is reasonable to assume that it will encourage maintaining the status quo or even making efforts to improve IJV performance. Dissatisfaction with strategic objectives may stimulate changes in IJV management at both strategic and operational control levels, even if the IJV itself functions very well. Therefore, Joint ventures achieving parent companies strategic objectives are very likely to be considered as successful (Merchant, 1998). If the parent perceives that the joint venture is out of control and unlikely to meet the expectations, it would terminate its involvement in the IJV. Hence, it is hypothesized that:

H15: Satisfaction with overall IJV performance is correlated with parent company satisfaction with performance in relation to objectives.

3.4. Chapter Summary

This chapter presents the conceptual framework of this research. The relationships between constructs are clarified: the strategic objectives are input, parent control is the process, and the IJV performance is the outcome. Research hypotheses are discussed in detail. They are tested in the empirical study. The next chapter provides the research methodology, including the general design of the survey, population, sampling criteria, and measurement of variables.

Chapter 4.   RESEARCH METHODOLOGY

4.1.   Chapter Introduction

This chapter describes the methodology that is used to conduct the research and analyse the data. Section 4.2 introduces two major research paradigms in management research. In section 4.3, the general design of the study is defined. The population selection criteria are described in section 4.4. Section 4.5 presents the rationale for choosing respondents and the data collection procedure. Section 4.6 provides the measures of the dependent and independent variables of the study. Section 4.7 briefly describes the data analysis techniques employed in hypotheses testing. The last section provides a summary of this chapter.

4.2.   Research Paradigm

The term research paradigm refers to the theoretical framework which underpins the research process (Bryman, 1984; Guba, 1985). The framework provides a sound guiding structure and a range of acceptable tools that help the researcher to find an answer to the question they have posed, or address a hypothesis they have posited (Easterby-Smith *et al*, 1999).

The main philosophical choices underlying management research are positivist paradigm and phenomenological paradigm (Guba and Lincoln, 1996). Researchers need to understand which type is the most suitable for a particular study. Easterby-

Smith *et al* (1999) defined three reasons why the understanding of the philosophical paradigms is very important. First, it helps to clarify the research design; second, it helps the researchers to recognise which designs will work and which ones will not; and third, it can help the researcher to identify and create designs that may be outside of his or her past experience.

The key idea of the positivist paradigm is that the social world exists externally, and that its properties should be measured through objective methods, rather than being inferred through sensations, reflections or intuition (Easterby-Smith *et al*, 1999). Positivism attempts to operationalise and give numerical values to social phenomena. It is traditionally associated with quantitative methods of data analysis (Collis and Hussey, 2003) and is typically used for theory testing.

Husserl (1946) stated that the phenomenological paradigm argues that the world and the reality are not objective and exterior, but they are socially constructed and given meaning by people. It uses a more involved approach to understand the complexities of the social world (Collis and Hussey, 2003). Phenomenology aims to develop a rich and complex understanding of each individual's interpretation of that world. Traditionally, this involves qualitative techniques and is used for theory generation.

Positivistic methods of collecting data, like surveys, are assumed to offer positive proof and rely on data which is collected systematically and methodically (Howe, 1985). By applying statistical techniques to this data, it may then be possible to generalise from the findings. Positivistic research often contains surveys, longitudinal studies, experimental studies, cross-sectional studies. On the other hand, phenomenological frameworks, such as case studies, seek data which is drawn from a

particular site or context, often using the personal observations of the researcher and case-specific data (Burrel and Morgan, 1979). While generalising from these studies may be problematic, detailed case studies can provide insights from which useful conclusions (information) can be drawn. Phenomenological research includes case studies, action research, participant enquiry, ethnography, feminist perspective.

Positivists seek rigor using statistical criteria and conceptions of reliability and validity to evaluate the quality of quantitative findings. Sample size, common methods bias and sampling error are common concerns. In contrast, meaning focused research in the phenomenology tradition is assessed in terms of trustworthiness criteria including credibility, transferability, dependability and confirmability and authenticity criteria including fairness and ontological, catalytic and tactical authenticity (Guba and Lincoln, 1996).

A quantitative research methodology is appropriate where quantifiable measures of variables of interest are possible, where hypotheses can be formulated and tested, and inferences drawn from samples to populations. Qualitative methods, on the other hand, are appropriate when the phenomena under study are complex, are social in nature, and do not lend themselves to quantification (Liebscher, 1998). These two paradigms usually lie at extreme ends of the research spectrum, but it is not unusual for researchers to use combinations in the same study. Considering the nature of the research issues, the research questions of this study can be tackled using the positivist paradigm.

4.3. General Design

The choice of the research design is a critical consideration for empirical studies. The option of relying on secondary sources to test the research hypotheses is rejected since preexisting IJV databases are virtually nonexistent. The hypothesis testing of this study requires subjective and perceptual data from key decision-makers who are intimately involved in the strategic decision-making process of joint ventures. Since the research focus is on how foreign partners perceive their Chinese ventures, the key decision-makers who represent foreign partners were investigated.

One of the most difficult tasks in conducting research on joint venture performance in developing countries, particularly in China, is obtaining reliable data on joint ventures (Shenkar, 1990). It is notoriously difficult to get quality data from a country like China. Most statistical data are compiled only for the purpose of government administration and policy formulation. Although the Chinese government has started to publish some statistical data in recent years, the accuracy of such information is questionable (Hu, Zhang, and Chen, 2004). Political pressures to inflate performance; the large chunks of the private and service sector that go uncounted; and technical factors, such as how to set the inflation deflator, have been identified as primary reasons for inaccurate secondary data (The Economist, 2000). Particularly the information on foreign direct investment might be exaggerated in order to attract more foreign capital into the country. A rigorous checking of such information is needed for the purpose of scientific research.

A mail survey is chosen over interviews for several reasons. Firstly, questionnaires represent the fastest method of gathering information from a large sample of respondents when there is only a single interviewer available. Secondly,

surveys are cost efficient when collecting data from respondents that are scattered around a broad geographic region. Thirdly, mail surveys are not as susceptible to interviewer biases as interviews. Finally, it may be easier for busy executives to schedule the completion of a mail questionnaire at their own time and pace than scheduling a face-to-face or telephone interview.

Of course, mail surveys suffer from a number of drawbacks (Churchill, 1991; Zikmund, 2000).Three issues seem to be of particular concern. First, when data are collected through a mail survey, there is little opportunity for question clarification and missing information or partially completed surveys can become problematic. Second, low response rates or non-respondent biases can raise serious questions about the validity of the study's findings. Finally, even though every effort can be made to direct the survey to the most appropriate organisational members, the researcher has little control over who is actually responding to the survey instrument. To minimise these drawbacks, every effort was made to conduct a methodologically rigorous survey design.

The questionnaire was developed based on the review of the literature. Three types of question structure were utilised: closed-ended with ordered answer choices, closed-ended with unordered answer choices, and a few open-ended questions. The majority of the questionnaire was comprised of 7-point Likert-type scales. Previous studies utilising the key informant methodology in the context of IJVs indicated that ordinal scales were more readily understood and better completed by busy senior executives than potentially more precise, but more complex and time consuming interval approximating techniques (Geringer, 1991). Research has shown that Likert scales with seven response options are more reliable than equivalent items with

greater or fewer options (Rea and Parker, 1997). It also tends to provide a level of variation in the response that is sufficient for correlation analysis and multivariate analytical methods (Hair *et al*, 1995).

A combination of internet survey and mail survey approach is applied. There can be little doubt that the number of surveys being conducted over the World Wide Web is increasing dramatically. The ability to collect large amounts of data without interviewers, and stationary or postage, makes the cost of doing web surveys very attractive (Witt, 1998). This is the primary data collection method chosen. However, if responses were not forthcoming after two reminder e-mails, then a mail version was posted to the non-respondents.

In order to increase reliability and response rate a formal letter was sent out to all the respondents in the sample. The letter served two functions: to direct the target person to the web site and to ensure authenticity of the survey. Since the respondents were very busy managing directors, the questionnaire was designed to be as short as possible and the web page designed to make responding easy (mainly through check-boxes) and quick so that they are not required to devote too much time and patience to completing all the questions. Only a few questions were open-ended and most responses were assessed using 7-point Likert-type scales. Prior research indicates that ordinal classification of perception is a more realistic task for respondents than use of interval or ratio measures (Geringer, 1991). In order to further increase reliability and reduce survey error, particular attention was paid to principles for designing the web questionnaire in such a way as to reduce different types of error (Dillman *et al*, 1998). The length of the questionnaire should not present a major concern because it was

designed to be completed within approximately 20 minutes. Thus it does not take away too much time from the respondent managers.

The questionnaire used in the survey consists of five sets of questions on the joint ventures, covering (1) general background; (2) strategic objectives for investing in China and the extent of satisfaction with each objective; (3) extent of control; (4) focus of control; (5) performance. The questionnaire contains both qualitative and quantitative questions.

For evaluating the validity of the questionnaire, a pilot test was conducted. The sample questionnaire was published on University of Salford's website and respondents were encouraged by personal email to visit the website and complete the questionnaire online. Ten Sino-European joint ventures were chosen and the introduction e-mail was sent to the individual managers. One of them was undeliverable. Two reminder e-mails were sent in two weeks. There were four responses. Based upon the feedback from the pilot test, the questionnaire was refined, and one question about financial outcome which was considered sensitive by respondents was therefore removed.

There were a total 340 Sino-European IJVs on the final survey list. For some, more than one representative or expatriate was quoted. The highest ranking person was initially chosen as respondent (i.e. General Management). If no response was received, a subsequent questionnaire was sent to a lower ranking manager (e.g. Deputy General Manager or departmental manager). The first wave of e-mailing was launched in November, 2003. A total 781 e-mails were sent. There were 348 were undeliverable. The first reminder e-mail was sent two weeks after the first e-mail as the response had almost ceased, with a second reminder e-mail two weeks after the

first reminder e-mail. Due to the fact that there were a high number of undeliverable e-mails, and some managers' e-mail addresses cannot be publicly obtained, a printed questionnaire was sent to these potential respondents by post. The survey period lasted approximately five months and ceased when no further responses were forthcoming (March 2004).

4.4.   Choice of Respondents

The specialised nature of the desired information also determines that participants have to be senior managers who are knowledgeable about the strategic objectives served by the joint venture and intimately familiar with the control system, and the performance aspects of the IJVs. Practically, the foreign general managers or expatriate managers are the ones who have participated in the initial IJV negotiation process. Their secondment from the parent companies, plus regular involvement in reporting and other communication with the parents, are deemed to provide a reasonable basis for them to assess parent company objectives for the IJVs. This approach to data gathering is widely accepted in this field (e.g., Hannan and Freeman, 1984). Furthermore, Geringer and Hebert (1991) found a significant correlation between the parent's assessment of IJV performance and that of the IJV's general managers. Child, Yan and Lu (1997) also found the similar correlation.

While the IJV CEO or General Manager is the key informant of choice, it is acknowledged that he or she, in reality, may not have been the one who ultimately completed the questionnaire. This study considers the accuracy of the information to be critical, rather than the title of the individual. Therefore, if another member of the executive team has first-hand knowledge of the IJV-parent relationship, then he or she

should be the one to complete the survey. To provide motivation and accurate responses, respondents were guaranteed anonymity and promised a summary of the research findings.

Since Sino-British, Sino-French, and Sino-German IJVs were the focus for this research, the questionnaire was developed in English, French, and German. In addition, due to the fact that increasing representatives of foreign partners are of Chinese nationality, a Chinese version was also provided. The survey was initially developed in English and then translated into Chinese by the author, a native-speaker of Chinese. An English-Chinese language expert checked the readability and understandability of the Chinese translation. Confusing and unclear expressions were discussed and revised accordingly. The Chinese version was sent to another language expert, who translated it back into English. The translation was compared with the original English version and suitable amendments were made. One French version and one German version followed the same steps of translation and back-translation as the Chinese version. Therefore, a multilingual survey instrument should sufficiently serve the purpose of the study. This method is widely accepted in joint venture research (e.g. Si and Bruton, 1999).

4.5.   Population and Sampling

China, one of the fast-growing emerging markets in Asia, served as the research site for this study. The advantages of using China as the research site and the Sino-European IJVs are already discussed in Section 1.3. In this section, the population is further specified. The study's primary objective for collecting data is to obtain conclusions about the population of IJVs and not merely describe the sample's

characteristics per se. Four sources were used to identify joint ventures that met these criteria: 1) European Chamber of Commerce in China, 2) British Chamber of Commerce in China, 3) French Chamber of Commerce and Industry in China, 4) Delegation of German Industry and Commerce. The target population is defined as stated below.

First, the study is limited to manufacturing ventures. Inclusion in the study required that the venture be in manufacturing (rather than service, mining or distribution). Non-manufacturing ventures were excluded because mixing joint ventures in a sample where the scale of investment is commonly much higher (mining) or lower (distribution) could potentially affect the joint venture decision process. Service IJVs are omitted since they differ from manufacturing IJVs in terms of investment rationale, institutional treatment, and performance measurement (Luo, 2001). Because many joint ventures never get off the ground, those firms which had been fully operating businesses for less than three years were excluded to increase the comparability of the sample. In addition, the ventures are widely representative of Sino-European joint ventures operating in various industrial sectors. Manufacturing IJVs are viewed by the Chinese authorities as the preferable form of foreign investment because they provide an opportunity for the transfer of advanced technology and management skills to the Chinese economy and lead to increased exports (Management World, 1996). Foreign companies have a particular interest in manufacturing in China, as it gives them access to the large Chinese market and to potentially low production costs (Davies, 1994). Since IJV manufacturing is critical to both the Chinese economy and many foreign investors, it is an area worthy of investigation by academic researchers.

Second, to keep costs down, only IJVs in Beijing, Yangtze Delta, and Guangdong Province were studied. Note that Beijing is the capital of China and the location of many major IJVs. Yangtze River Delta is the economic area encircling the delta region of Yangtze River, covering Shanghai, the southern part of Jiangsu province, northern part of Zhejiang province. It has been the country's most advanced industrial center and is becoming increasingly the focus of foreign direct investment. Guangdong is the province where the Chinese open-door policy started. Accounting for well over 30 percent of the total realised and contracted FDI in China, it is the largest recipient of FDI among all Chinese provinces. Moreover, Guangdong is more developed than most other regions in China in terms of the stage of economic development and the development of market institutions (Vogel, 1989). Thus, the selection of these three areas assures a certain degree of representativeness of IJV activity in China.

Third, the IJV must be two-party sponsored by for-profit organisations. If multi-party IJVs were included, it would have been, necessary to employ different operational definitions for the two-party and the multi-party IJVs. Since Sino-European joint ventures are the research setting, the participating ventures must be one Chinese partner, and one European company. As discussed in Section 1.3, UK, France, and Germany are the major European investors in China. These three countries account for more than half of European FDI in China (MOFTEC, 2004) and are therefore chosen for investigation. Consequently, the foreign partner must have headquarters in UK, France, or Germany. Moreover, the IJVs that include non-profit organisations as venture partners are excluded from the sample since government agencies or non-profit organisations which may have non-economic intentions are beyond the research interest of this study.

Fourth, neither partner should hold more than 80 percent of the venture's equity. Nevertheless, what is not clear in the literature is the exact percentage of foreign ownership that distinguishes an IJV from other forms of foreign direct investment. In Hennart's (1991) research, IJVs were defined as those organisations that were 5-95% foreign owned. The study indicated that less than 5% foreign ownership represents a minority investment for the foreign companies, while more than 95% ownership approximates a wholly owned subsidiary. The 95% cutoff was also employed in Gomes-Casseres' (1989) and Gatignon and Anderson (1988) study. On the other hand, some researchers defined IJVs as one parent company holds between 10-90% of the company's equity (Park, 1992; Shenkar & Zeira, 1992). Makino and Beamish (1998) follow traditional accounting principles (e.g. accounting standards of Canada, US, etc.) that firms are considered to be affiliated when equity ownership is between 20 percent and 80 percent. When it is under 20 percent, the investment is termed a "portfolio investment". Despite some discrepancies in the literature, this study adopted Makino and Beamish's approach using 80% cutoff to ensure the sample included in the research are those joint ventures in which both Chinese and foreign partners seek participation in the IJV's management and control decisions. Otherwise, the joint venture would be considered as a wholly-owned subsidiary or a capital investment, in which the partner holding a minority equity position has no intention of being involved in the management of the joint venture. Likewise, IJVs where partners are banking investors who usually are not actively involved in the IJV's management are considered as portfolio investment and excluded from this study.

Fifth, the joint ventures chosen had all been in operation at least three years so that a sound evaluation of performance is possible. The three-year criterion was

chosen because of the finding that it takes two years for a foreign subsidiary's performance to stabilise (Woodcock *et al*, 1994).

Sixth, the time frame, which is often a concern for bias in international studies, should not represent any problem here. The total administration of the surveys took five months. There had been no significant international event occurring during that period that might have influenced the Chinese international joint ventures and respondents.

4.6. Measures

It is important to point out that consistency in the unit of analysis in conceptualising and operationalising control and performance is necessary in order to expect explainable empirical results. For example, if control is conceptualised from the IJV management's perspective (Killing, 1983), performance should be defined in terms of the IJV management's goals (as opposed to the parents'). Similarly, if performance is assessed by using one partner's criteria, control should be conceptualised from the same partner's viewpoint. The degree of conceptual and measurement correspondence between the two variables may substantially bias the potential empirical results. It is as much a theoretical issue as a methodological one, as consistent and robust results have to be theoretically explainable. In this study, since management control is conceptualised on a foreign parent company basis, the joint venture's performance is similarly characterised as the level of satisfaction with the partners' objectives and with overall joint venture performance.

The three key constructs are IJV performance, parent control, and IJV strategic objectives. The following is a detailed description of the study's measures and the items that are used to measure the study's constructs.

4.6.1. Dependent Variables

The dependent variable of this study is IJV performance. A perceptual measure is used, as aforementioned, because objective measures such as financial performance or survival may not properly reflect the degree of venture success (Glaister & Buckley, 1999). Further, JV financial data are usually not public but are included in the annual financial reports of the parent companies in aggregate form. In addition, asking for financial performance data would have likely lowered the response rate (Tomaskovic-Devey *et al*, 1994).

Following prior studies of parent control and IJV performance (Ding, 1997; Mjoen and Tallman, 1997; Osland and Cavusgil, 1996; Yan and Gray, 1994), two measures of IJV performance are adopted.

One is the foreign parent satisfaction with performance in relation to each strategic objective. Since joint ventures are formed to pursue each partner's strategic interests, and each partner commits critical resources toward these ends, the degree to which these goals are satisfied constitutes an effective measure of performance. Unless the partners' strategic expectations are going to be satisfied, there is no reason to establish joint ventures in the first place (Harrigan, 1986). The achievement of the IJV foreign parents' objectives for participating in the venture therefore deserves the central attention in IJV performance evaluation. Since local partner's objectives of

entering the partnership is not a major concern in this study, foreign partner's evaluation is therefore the appropriate criterion to measure IJV performance.

The other performance measure is the foreign parent's assessment of overall satisfaction with IJV performance. The major consideration in using this measure is that it conveys the idea of how much the parent is satisfied with operation of joint venture per se. Achievement of strategic objectives does not necessarily mean that the IJV is running well, especially when opportunistic behaviours exist (Gupta and Misra 2000). Hence, the representatives of the foreign parent were asked to rate overall satisfaction with IJV performance on a seven point scale (1 labelled "Very satisfied", 7 labeled "Very Dissatisfied" and no descriptor label assigned to the integers in between).

Following the reviewed literature, thirteen major strategic objectives of foreign parents are developed: exploring global synergy, spreading financial risks, reducing investment exposure, avoiding political uncertainty, entering the Chinese market fast, gaining more competitive advantages, managing competition, overcoming government barriers, acquiring country-specific knowledge, and acquiring local market knowledge. In addition, three traditional joint venture objectives were added: generating profits in China, benefiting from low labour costs in China, benefiting from natural resources (Daniels *et al*, 1985; Zhang, 1997).

4.6.2.   Independent Variables

<u>Control</u>   Prior studies about parent control commonly focus on the relationship between IJV performance and the extent of control. They regard

parent control on a continuum going from full control by MNE parents through shared control with local partners. This study proposes that parent control exercised over the IJV should be examined not only from the point of view of extent but also in terms of focus. When firms design the control system, they face the choice of activities of control as well as the choice of amount of control exercised within those chosen activities. Therefore, without considering the potential activities that they want to control, firms cannot precisely determine the amount of control they intend to exert over the IJVs.

Questions relating to parent control at both a strategic level and an operational level were developed from previous empirical IJV studies. Seven questions relate to strategic control: 1) setting strategic IJV priorities, 2) use of profit, 3) choice of key product lines, 4) allocating senior management positions, 5) choice of location of IJV facilities, 6) choice of geographic market scope, and 7) choice of major capital financing relations (Prahalad and Doz, 1987; Geringer, 1988, Hebert, 1994; Yan and Gray, 1997). Nine questions were developed relating to operational control: 1) production planning, 2) R&D, 3) product pricing, 4) sales and distribution, 5) quality control, 6) reward and incentive policies, 7) training and development policies, 8) general management, 9) management of legal or government (Hebert, 1994; Yan and Gray, 1997; Child and Yan, 1999). Participants are required to rate the extent of each decision (1 labelled local partner's full control, 4 labelled equally shared control, 7 labelled the European partner's full control) to which the firm influences each of the strategic and operational decision-making activities. The seven-point scale represents the level of control exercised by foreign or local parents over the IJV.

Strategic objectives As previous discussed, the strategic objectives of foreign parents are categorised as market-development objectives, efficiency-seeking objectives, and knowledge-acquiring objectives. Market-developing objectives are measured by four items: 1) to enter the Chinese market fast, 2) to gain more competitive advantage, 3) to manage competition, and 4) to overcome government barriers (Daniels et al, 1985; Harrigan, 1987; Glaister and Buckley, 1996; Luo, 1998) . Efficiency objectives are measured by four items: 1) to explore global synergy, 2) to spread financial risks, 3) to reduce investment exposure, and 4) to avoid political uncertainty (Contractor and Lorange, 1988; Glaister and Buckley, 1996; Yan and Child, 2002). Knowledge-acquiring objectives are measured by two items: 1) to acquire country-specific knowledge, and 2) to acquire local market knowledge (Glaister and Buckley, 1996; Yan and Child, 2002). In addition to these objectives, three traditional joint venture objectives are added for exploratory purpose. They are 1) to generate profits in China, 2) to benefit from low labour cost, and 3) to benefit natural resources (Daniels *et al*, 1985, Zhang, 1997; Kashlak, 1998; Chadee *et al*, 2002). For each of these objectives, the participants were asked to indicate their agreement (with 1 labelled "Strongly Agree", and 7 labeled "Strongly Disagree" no descriptor label assigned to the integers in between) with the firm's decision to engage in this IJV. Respondents were also encouraged to detail other specific strategic objectives of the parent for the joint venture.

4.7.   Analysis Methods

Several methods of analysis are applied.

First, any systematic bias is examined by using t-tests to compare response and non-response IJVs. Since the samples are collected through a single source instrument (self-report questionnaire), Harman one-factor test is used to examine the extent of common method variance.

Second, general descriptive statistics are used to show characteristics of samples. Frequency, mean, mode are applied to illustrate the profiles of IJVs.

Third, confirmatory factor analysis is used to verify the underlying dimensions of strategic objectives and parent control. Cronbach's alpha was used to assess each scale's reliability.

Fourth, moderating hierarchical multiple regressions are applied to test H1 to H8. Interaction effects of parent control on strategic objectives and satisfaction with objective performance are investigated with the help of control variables. To reduce the potential problem with multicollinearity, all interaction variables are mean-centered.

Fifth, proposed relationships among the main constructs, i.e. strategic objectives, parent control, and IJV performance are tested using path analysis. Multiple regression analysis is used to test the proposed direct effects.

Sixth, One-way ANOVA is used to test the superiority of performance among the categories of objectives. The analysis of variance procedure is used to detect the existence of inter-group performance differences among the three categories of strategic objectives. If significant inter-group differences are found, Post Hoc test was performed to identify performance differences between any two specific categories.

Finally, the correlation between two dependent variables is examined by Pearson's Product-moment correlation. If the significance level is less than 0.05, they are considered correlated.

4.8. Chapter summary

This study uses mail questionnaires as the data collection method. The sample frame includes Sino-European international joint ventures established in manufacturing industries in China. Respondents are key decision-makers who have been closely involved in the joint venture decision making process. The measurement of variables and analysis methods are discussed.

The next chapter presents the results and findings of the study.

Chapter 5.   Findings and Analysis

5.1.   Chapter Introduction

The previous chapter presented the research methodology of this study. In this chapter, before testing the study's hypotheses, the data are checked by both non response bias test and common method variance. Various descriptive statistics are run to depict the sample characteristics. The strategic objectives and levels of control are examined by factor analysis in order to reveal the latent categories. The correlation matrix of the study's variables is also presented. The hierarchy multiple regression is applied to discover the relationship between strategic objectives, control and performance. The conceptual framework is tested by path analysis. One-way ANOVA further examines the differences between various categories of objectives.

5.2.   Research Systematic bias examination

5.2.1.   Non response bias test

In this study, an important issue that needed to be addressed is that the data obtained from responding IJVs can be generalised to the target population. To examine whether there was any systematic response bias, respondent and non-respondent IJVs were compared across the following dimensions: IJV age and total equity share held by European partner. 21 IJV were randomly selected from the non-responding IJVs. Data on each of these variables were collected from public information, such as IJVs' web sites, IJV parent company's web sites. The age of the IJV was counted by taking the difference (in years) between the year of establishment

and 2003 when the data were collected. Equity share held by European partners, as indicated by sampling criteria, ranged from 20% to 80%.

To test for differences between responding and non-responding IJVs, t-tests are used to examine any existence of systematic bias. As can be seen in Table 5.1, no significant age differences (p > 0.05) were found between responding and non-responding IJVs. Similarly, Table 5.2 indicates that no significant differences (p > 0.05) were found in the equity share held by the European partner between the respondents and the non-respondents. Since no statistically significant difference was found between respondents and nonrespondents to these questions, nonresponse bias was assumed to be absent in the final sample.

Table 5.1 t-test of age between responding and non-responding IJVs

Variables	Responding IJVs		Non-Responding IJVs		t-statistics	p value
	Mean	Standard Deviation	Mean	Standard Deviation		
Age (years)	7.00	3.860	7.57	2.580	-.521	.608

Table 5.2 t-test of equity between responding and non-responding IJVs

Variables	Responding IJVs		Non-Responding IJVs		t-statistics	p value
	Mean	Standard Deviation	Mean	Standard Deviation		
Equity	58.62	17.060	54.71	12.071	.758	.457

5.2.2. Common method variance

It should be noted that the data may suffer from common method variance as it was obtained from a single source instrument (the self-report questionnaire). Following Podsakoff and Organ (1986), the Harman one-factor test is used to examine the extent of common method variance in this study. The basic assumption of the Harman one-factor test is that if a substantial amount of common method variance is present, either a) a single factor will emerge from the factor analysis, or b) one "general" factor will account for the majority of the covariance in the independent and dependent variables.

A principal components factor analysis with an unrotated solution indicated 13 factors with eigenvalues greater than 1.0, with the largest variance explained by a single factor being 15.6 percent. The result suggests that no single factor accounted for the majority of the covariance in the variables. From this evidence, it can be inferred that no significant amount of common method variance was present in the data set.

5.3. Response rate and characteristics of respondents

5.3.1. Response rate

Of the 320 IJVs surveyed, there were 71 questionnaires returned, of which 10 were unusable. Among the ten unusable returns: four were faulty responses probably because of technical reasons, two were wholly-owned enterprises, two were from the service industry, one was in fact Japanese-Chinese and one was a Hong Kong-Chinese joint venture. All of the usable 61 responses were IJVs from manufacturing industry.

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This gives a response rate of 19 percent. While the response rate was not very high, it is comparable with similar surveys conducted by other international joint venture researchers (i.e., Kogut, 1989; Parkhe, 1993, Ding, 1997, Isobe *et al*, 2000; Tiessen and Linton, 2000).

5.3.2. Profile of Respondents

Table 5.3 indicates that of the 61 respondents, 53 (86.9%) were top executives in the IJV (general managers, deputy managers, and managing directors), and 8 (13.1%) were department level managers (Chief Operation Officer, HRM, Sales, and R&D managers). This highly knowledgeable respondent profile met the requirements of the study.

Table 5.3 Characteristics of Respondents

	Frequency	Percent	Cumulative Percent
General Management	28	45.9	45.9
Deputy General Manager	11	18.0	63.9
Managing Director	14	23.0	86.9
Department Manager	8	13.1	100
Total	61	100	

5.3.3. Profiles of the IJVs

As can be seen from Table 5.4, the nationalities of the European IJVs were as follows: of the 61 respondents, 14 (23%) were from United Kingdom, 15 (24.6%) were from France, and 32 (52.5%) were from Germany. Among the sample IJVs, 34

out of the 61 were located in the Shanghai area, 14 were based in Beijing, and 13 IJVs were in the Guangdong area (see Table 5.5).

Table 5.4 European Parent Nationality

	Frequency	Percent	Cumulative Percent
United Kingdom	14	23.0	23.0
France	15	24.6	47.5
Germany	32	52.5	100
Total	61	100	

Table 5.5 Geographic Location

	Frequency	Percent	Cumulative Percent
Beijing	14	23.0	23.0
Shanghai	34	55.7	78.7
Guangdong	13	21.3	100
Total	61	100	

The mean value of the European partner's ownership share was about 61%. From the equity share held by the European partner (Table 5.6), it was apparent that approximately two thirds of the European partners held more than 50% equity share. 21 percent held equal shares and only 10 percent had less than half of equity share.

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Table 5.6 Share of equity held by European partner in the JV

European Partner Share (%)	Frequency	Percent	Cumulative Percent
25	1	1.6	1.6
30	2	3.3	4.9
33	1	1.6	6.6
40	1	1.6	8.2
49	1	1.6	9.8
50	7	11.5	21.3
51	9	14.8	36.1
52	1	1.6	37.7
55	2	3.3	41.0
60	9	14.8	55.7
65	1	1.6	57.4
66	1	1.6	59.0
67	2	3.3	62.3
70	10	16.4	78.7
75	5	8.2	86.9
77	1	1.6	88.5
78	1	1.6	90.2
80	6	9.8	100.0
Total	61	100.0	

The total original investments were measured by four categories: less than $1 million, $1 million to less than 10 millions, $10 millions to 50 millions, and over $50 millions. Figure 5.1 reveals that the majority of European companies showed a generally high amount of investment in IJVs. Table 5.7 further illustrates that more than half of the respondent IJVs were medium-sized organisations, where the number of employees ranged from 100 to 500.

Figure 5-1 Total original Investment
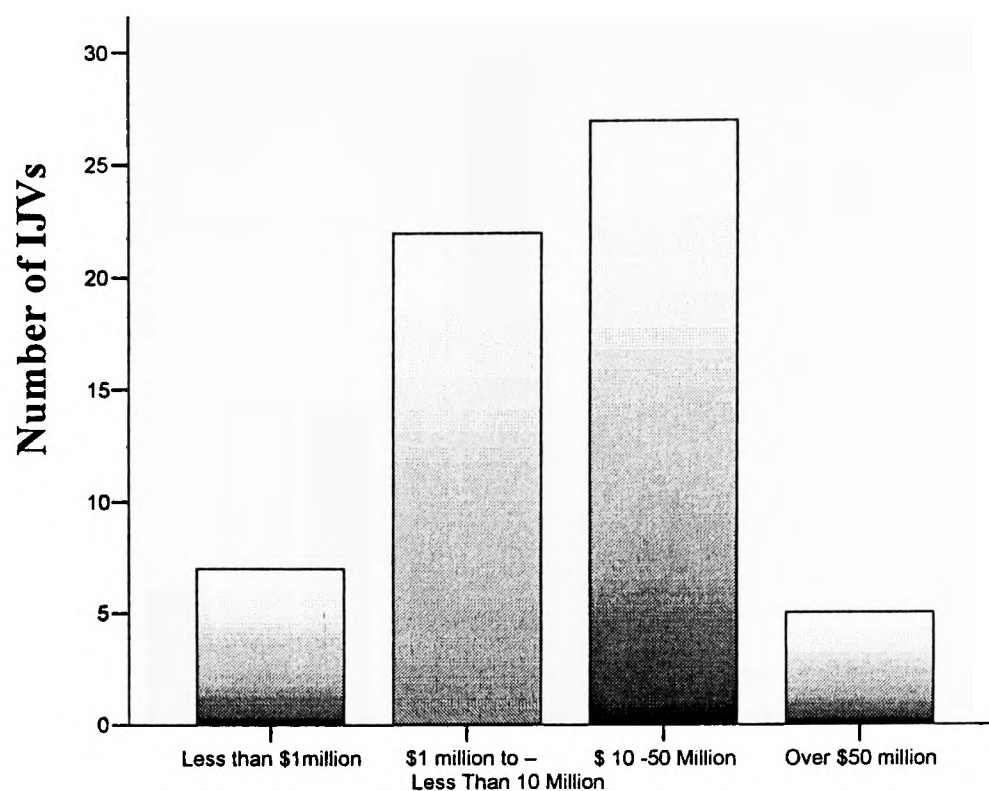
Table 5.7 Number of employees in China

	Frequency	Percent	Cumulative Percent
Less than 100	14	23.0	23.0
100-500	35	57.4	80.3
Over 500	12	19.7	100
Total	61	100	

The mean value of the years of establishment is 7.64 years. Figure 5.2 also

shows that the highest number of years of IJV establishment ranged from 7 to 9 years.

This was probably related to the dramatic FDI inflow after 1993. Of the 61 IJVs, the

intended duration of the IJV was rather long, with two thirds stating an intended duration of 20 years (see Table 5.8).

Figure 5-2 Number of Years of Establishment
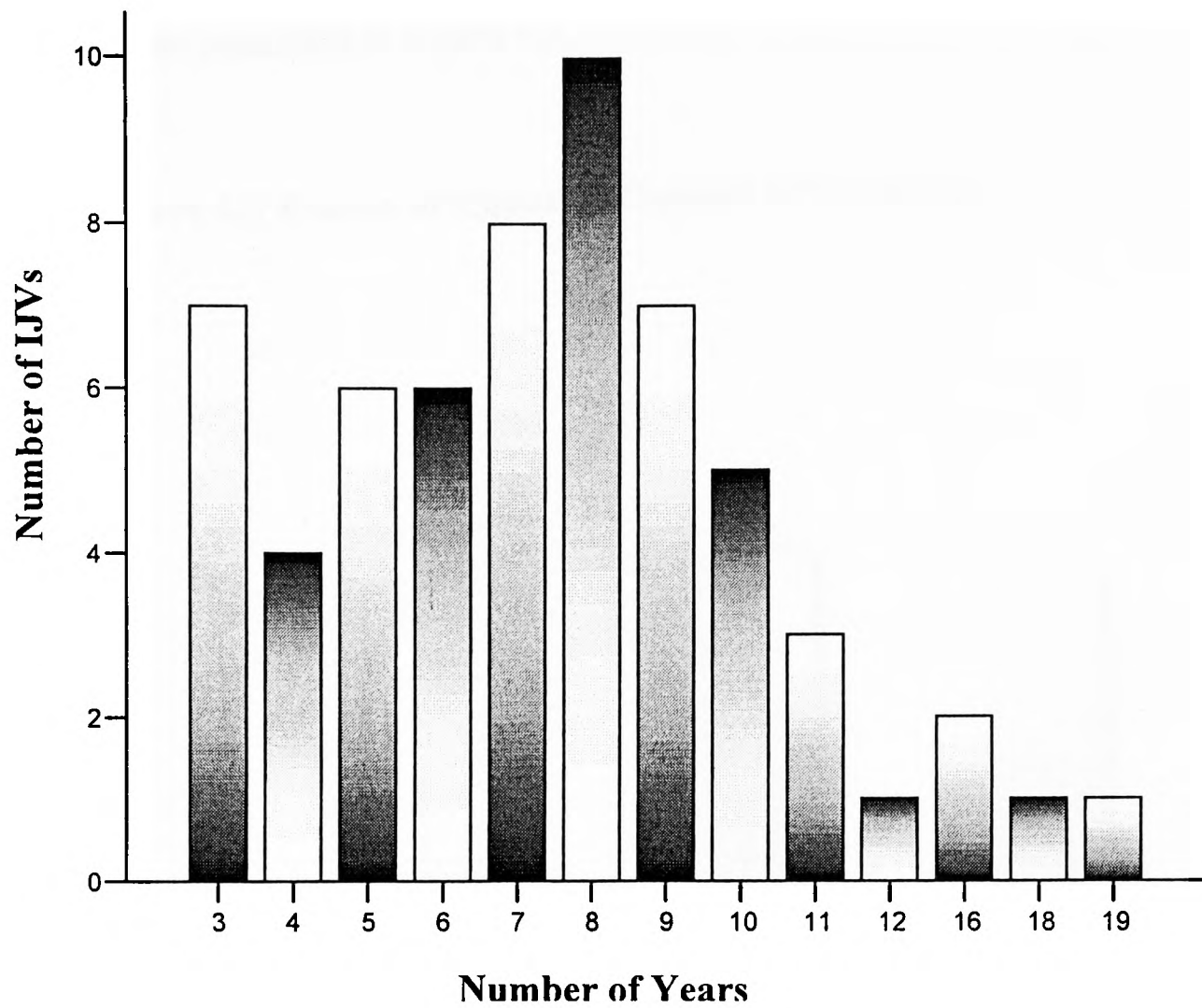
Table 5.8 Intended duration of this JV when it was established

	Frequency	Percent	Cumulative Percent
5-10 years	6	9.8	9.8
10-20 years	10	16.4	26.2
20-30 years	22	36.1	62.3
More than 30 years	23	37.7	100
Total	61	100	

The respondents also were asked the reasons why the current IJV location was chosen. There were four reasons given: close to raw materials, situated in economic zone, close to local partner, close to market. A supplementary blank box was provided for specifying any other reason. Respondents were encouraged to choose more than one. The results were presented in Figure 5.3.

Figure 5-3 Reason of Choosing Current IJV Location

Reason of Choosing Current IJV Location
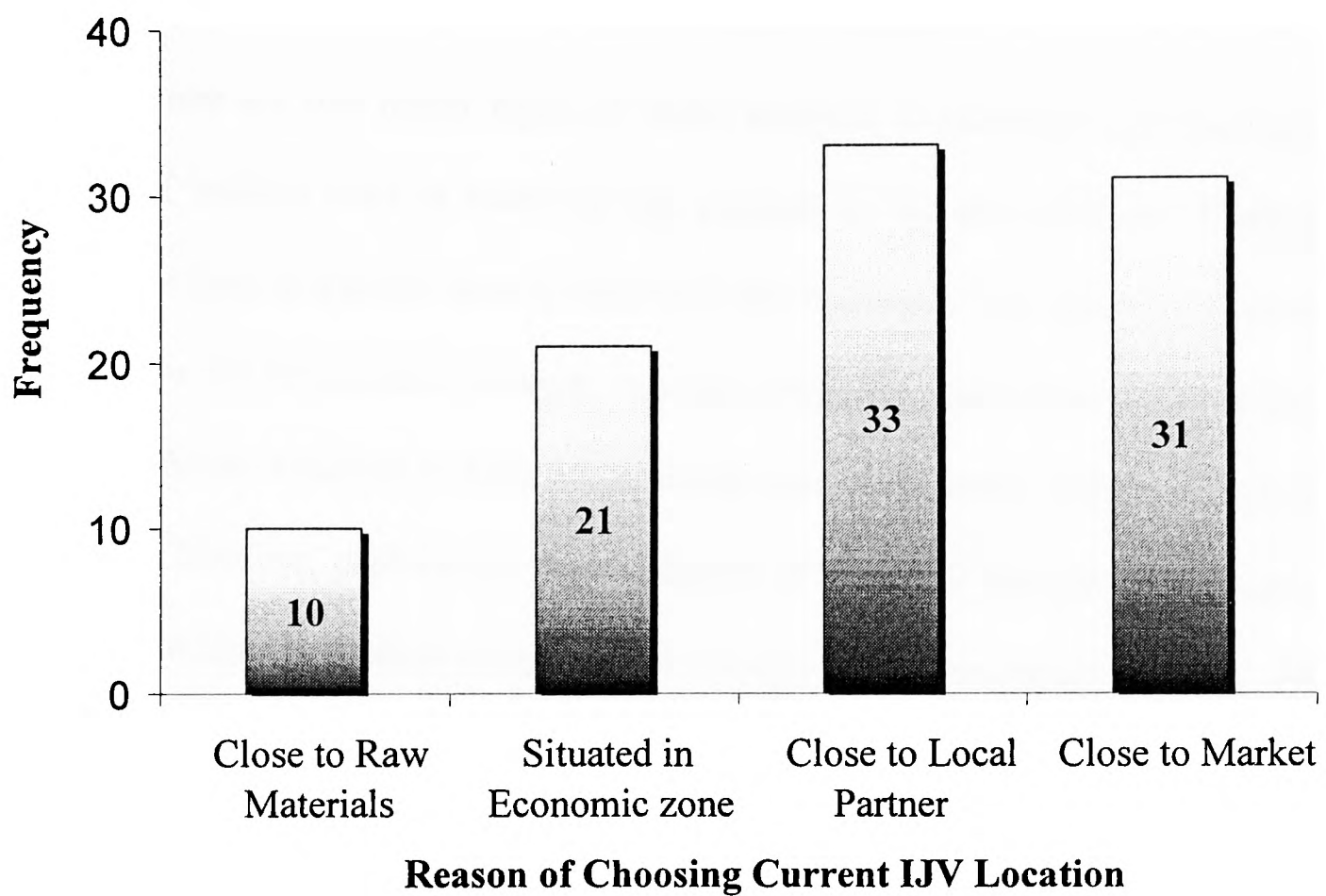
5.4. Verification of factors of strategic objectives and parent control

Before examining the hypotheses, confirmatory factor analysis is conducted to identify whether the thirteen strategic objectives variables could be reduced to three categories: market-developing, efficiency-seeking, organisational-learning-related objectives. A similar approach is applied to verify whether the sixteen control activities could be reduced to two dimensions: strategic and operational control.

5.4.1. Introduction to Confirmatory Factor Analysis

There are two major types of factor analysis: exploratory and confirmatory. Choice of method used is based on the purpose of the data analysis. Exploratory analysis is used to explore data to determine the number or the nature of factors that account for the covariation between variables when the researcher does not have, a priori, sufficient evidence to form a hypothesis about the number of factors underlying the data. Therefore, exploratory factor analysis is generally thought of as more of a theory-generating procedure as opposed to a theory-testing procedure (Stevens, 1996).

In contrast to theory-generating methods like exploratory factor analysis, confirmatory factor analysis is a theory-testing model. In confirmatory factor analysis, the researcher begins with a hypothesis prior to the analysis. This model, or hypothesis, specifies which variables will be correlated with which factors and which factor are correlated. The hypothesis is based on a strong theoretical and empirical foundation (Stevens, 1996).

The confirmatory factor analysis starts from proposed models which are based on theory or existing data. It tests whether a specified set of constructs is influencing

responses in a predicted way. In addition, confirmatory factor analysis offers the researcher a more viable method for evaluating construct validity. The researcher is able to explicitly test hypotheses concerning the factor structure of the data due to having the predetermined model specifying the number and composition of the factors.

Kline (1994. p3) states that factor analysis consists of a number of statistical techniques the aim of which is to simplify complex sets of data. He suggests that confirmatory factor analysis seeks to determine if the number of factors and the loadings of measured variables on them conform to what is expected on the basis of pre-established theory. Indicator variables are selected on the base of prior theory and factor analysis is used to see if they load as predicted on the expected number of factors. The researcher's pre-assumption is that each factor (the number and labels of which may be specified beforehand) is associated with a specified subset of indicator variables. Gorsuch (1983) contended that confirmatory is more theoretically important and should be much more widely used than exploratory factor analysis, which should be reserved only for those areas that are truly exploratory, that is, areas where no prior analyses have been conducted.

In this study, confirmatory factor analysis is applied as the aim is to identify whether variables load on the categories that have been previously identified from theoretical work.

5.4.2. Verification of underlying dimensions of strategic objectives

5.4.2.1. Descriptive statistics of strategic objectives

Respondents rated their agreement and satisfaction with thirteen strategic objectives pursued through participation in the joint ventures. The seven-point Likert scales used for rating the agreement and satisfaction with each objective were labelled from "Strongly Disagree" to "Strongly Agree", and from "Very Dissatisfied" to "Very Satisfied", respectively.

Descriptive statistics for agreement with the strategic objectives are presented in Table 5.9. For the purpose of clarification, the mean of agreement for the sample is reported with the number of respondents who agreed (rating = 5, 6 or 7) and disagreed (rating = 1, 2, or 3) with each objective. The reason for such groupings is that the respondents might not be entirely certain as to the differences of the scale. In addition, the extreme values, such as 7 and 1, are usually avoided in Chinese culture (Lin, 1997).

The strategic objectives were ranked by rating of agreement. The strategic objectives that were most frequently agreed with were "To enter Chinese market faster" at 82%, followed by "To acquire local market knowledge" at 78.7%, and "To gain more competitive advantages" at 77%. The strategic objectives that were least frequently agreed with were "To benefit from natural resources" at 73.8%, "To explore global synergies with other subsidiaries" at 63.9%, and "To spread financial risk" at 60.7%. The Pearson's correlations for agreement with strategic objectives are reported in Table 5.11.

Table 5.10 presents the mean of satisfaction with the performance of the joint venture in relation to the firm's strategic objectives with the number of respondents who rated their satisfaction (rating =5, 6 or 7) and dissatisfaction (rating = 1, 2 or 3) with each objective, which is the same grouping approach as presented above for agreement with strategic objectives. They are ranked by rating of satisfaction.

It should be noted that while the respondents have an opinion on whether they agree with each objective, they do not necessarily have to have a judgment on satisfaction, which means they are neither satisfied nor dissatisfied. For example, foreign partners may agree they have strong learning intention when they establish the joint ventures. However, they might not have had a judgment on satisfaction on this objective since learning takes time and only can take effect in the long-term (Berrell *et al*, 2002). Taking this into account, one "N/A (Not Applicable) column was provided. Rather than treating this as a missing value, the N/A value can be replaced by a meaningful value. Following Hair *et al* (1995), mean substitution replaces the missing values for a variable with the mean value of that variable based on all valid responses. The rationale for this approach is that the mean is the best single replacement value as no statistical bias would be generated. Lyles and Baird (1994) also used mean values to substitute missing values to conserve degrees of freedom.

The strategic objectives with which respondents were most satisfied were "To enter Chinese market faster" at 87.3%, "To acquire knowledge of the local economy and culture" at 83% and "To deter competitive market entry" at 82.1%. The strategic objectives with which they were dissatisfied were "To spread financial risk" at 56.9%, "To explore global synergies with other subsidiaries" at 43.1%, and "To benefit from natural resources" at 33.3%.

The results indicate that, in general, European companies were satisfied by their success in achieving their strategic objectives. The prioritised strategic objectives met the expectation of European parent companies, whereas the unimportant objectives showed low satisfaction ratings. However, they were somewhat dissatisfied with efficiency-seeking-related objectives. The Pearson's correlations for satisfaction with strategic objectives are reported in Table 5.12.

Table 5.9 Agreement with Strategic Objectives

	Mean	Most Agreed			Least Agreed		
		Rank	No.	%	Rank	No.	%
To enter Chinese market faster	5.39	1	50	82.0	13	2	4.9
To acquire local market knowledge	5.41	2	48	78.7	12	8	13.1
To gain more competitive advantages	5.46	3	47	77.0	9	10	16.4
To acquire knowledge of the local economy and culture	5.03	4	39	63.9	11	9	14.8
To overcome governmental trade barriers	4.79	5	39	64.0	8	13	21.3
To deter competitive market entry	4.95	6	38	62.3	10	8	13.1
To generate profits in China	4.72	7	38	62.3	7	16	26.2
To benefit from low labour cost	4.59	8	36	59.1	6	18	29.5
To spread financial risk	3.00	9	17	27.9	3	37	60.7
To explore global synergies	3.26	10	16	26.2	2	39	63.9
To avoid political risk or uncertainties	3.16	11	16	26.2	5	33	54.1
To reduce investment exposure	2.97	14	14	23.0	4	36	59.0
To benefit from natural resources	2.56	13	12	19.7	1	45	73.8

Table 5.10 Satisfaction with Strategic Objectives

	Mean	Most Satisfied			Least Satisfied		
		Rank	No.	%	Rank	No.	%
To enter Chinese market faster	5.42	1	48	87.3	13	2	3.6
To acquire knowledge of the local economy and culture	5.13	2	46	83	10	8	14.3
To deter competitive market entry	5.17	3	44	82.1	12	5	9.4
To avoid political risk or uncertainties	4.98	4	44	73.3	9	9	15.0
To reduce investment exposure	5.07	5	43	71.5	5	12	19.7
To generate profits in China	4.98	6	39	66.1	6	11	18.6
To overcome governmental trade barriers	5.03	7	38	65.5	11	7	12.1
To benefit from low labour cost	4.77	8	34	60.7	8	10	17.9
To acquire local market knowledge	4.62	9	28	59.6	7	10	21.3
To gain more competitive advantages	4.43	10	26	49.1	4	15	28.3
To explore global synergies	3.86	11	22	37.9	2	25	43.1
To spread financial risk	3.24	12	17	29.3	1	33	56.9
To benefit from natural resources	3.76	13	15	29.4	3	17	33.3

Table 5.11 Pearson's Correlations of Agreement with Strategic Objectives

	1	2	3	4	5	6	7	8	9	10	11	12	13
1. To enter Chinese market faster	1												
2. To gain more competitive advantages	.223	1											
3. To deter competitive market entry	.158	.369**	1										
4. To overcome governmental trade barriers	.216	.321*	.311*	1									
5. To generate profits in China	.247	.392**	.199	.414**	1								
6. To benefit from natural resources	.005	.134	-.023	.146	-.023	1							
7. To explore global synergies with other subsidiaries	-.354**	-.138	.063	.081	-.027	-.061	1						
8. To spread financial risk	-.335**	.043	-.088	.185	-.014	.122	.251	1					
9. To reduce investment exposure	-.223	-.011	-.096	.076	-.078	.026	.289*	.767**	1				
10. To avoid political risk or uncertainties	-.143	-.132	-.314*	-.173	-.206	.150	.077	.378**	.455**	1			
11. To benefit from low labour cost	.064	.017	-.062	.139	.217	.142	.133	.427**	.342**	.058	1		
12. To acquire knowledge of the local economy, politics, and culture	.240	.099	.220	.181	.094	.136	-.031	-.142	.000	.083	.141	1	
13. To acquire local market knowledge	.225	.189	.260*	.232	.170	.140	-.074	-.081	.075	-.001	-.035	.640*	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

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Table 5.12 Pearson's Correlations of Satisfaction with Strategic Objectives

	1	2	3	4	5	6	7	8	9	10	11	12	13
1. To enter Chinese market faster	1												
2. To gain more competitive advantages	-.029	1											
3. To deter competitive market entry	.081	.163	1										
4. To overcome governmental trade barriers	.124	.395**	.314*	1									
5. To generate profits in China	.066	.348*	.326*	.586**	1								
6. To benefit from natural resources	.091	.174	.238	.212	.314*	1							
7. To explore global synergies with other subsidiaries	-.347*	.209	.055	.111	.144	.062	1						
8. To spread financial risk	-.213	.267	.034	.309*	.275*	.667**	.114	1					
9. To reduce investment exposure	.078	.438**	.304*	.427**	.465**	.375**	-.029	.371*	1				
10. To avoid political risk or uncertainties	.209	.368**	.135	.390**	.435**	.162	-.020	.286*	.484**	1			
11. To benefit from low labour cost	.081	.384**	.068	.291*	.159	.179	.003	.257	.129	.431**	1		
12. To acquire knowledge of the local politics, and culture	.498**	.015	.134	-.107	.008	-.083	-.272*	-.089	-.021	.283*	.155	1	
13. To acquire local market knowledge	-.207	.213	.195	.165	.237	.031	-.027	.010	.167	.249	-.058	.375**	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

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5.4.2.2. Verification of strategic objectives factors

The literature review suggested that foreign partner strategic objectives for joint venturing fall into three categories: market-developing objectives, efficiency-seeking objectives, and knowledge-acquiring objectives. In order to verify this premise, a confirmatory factor analysis of agreement with strategic objectives was performed.

The Principal Axis factoring was used as the type of extracting method in confirmatory factor analysis. This method allows the researchers to examine factor loadings of indicator variables to determine if they load on latent variables (factors) as predicted by the researcher's proposed model. Moreover, rather than setting eigenvalues as 1, which is widely applied in exploratory factor analysis, the extracted number of factors is constrained to 3. A Varimax orthogonal rotation method was applied. The results of the loading are reported in Table 5.13.

The proposed "Market-Developing" category exactly loaded on Factor 1, which comprised the four variables expected. The additional variable "To generate profits in China" also fell in this category. Factor 2 included the four expected Efficiency-Seeking variables. The additional variable "To benefit from low labour cost" fell in this category as well. The proposed "Organisational Learning" category loaded on Factor 3, which comprised both expected variables. The additional variable "To benefit from natural resources" did not meet the criterion of cutoff 0.3 (Churchill, 1991). Therefore, it was excluded from the analysis, and the CFA was re-run. The results are shown in Table 5.14.

Table 5.13 Factor Loading of Confirmatory Factor Analysis

		Factor		
		1	**2**	**3**
Market-Developing	To enter Chinese market faster	**.330**	-.298	.241
	To gain more competitive advantages	**.562**	.009	.109
	To deter competitive market entry	**.470**	-.110	.159
	To overcome governmental trade barriers	**.625**	.167	.155
Efficiency-Seeking	To explore global synergies with other subsidiaries	-.050	**.318**	-.072
	To spread financial risk	.033	**.968**	-.073
	To reduce investment exposure	-.113	**.819**	.131
	To avoid political risk or uncertainties	-.400	**.413**	.186
Knowledge-Acquiring	To acquire knowledge of the local economy, politics, and culture	.099	-.069	**.835**
	To acquire local market knowledge	.209	-.050	**.723**
Additional category (traditional objectives of joining in a venture)	To generate profits in China	**.621**	.009	.047
	To benefit from low labour cost	.159	**.409**	.077
	To benefit from natural resources	.052	.123	.188

Extraction Method: Principal Axis Factoring.
Rotation Method: Varimax with Kaiser Normalization.

Table 5.14 Rerun Factor Loading of Confirmatory Factor Analysis

		Factor		
		1	2	3
Market-Developing	To enter Chinese market faster	<u>.329</u>	-.288	.253
	To gain more competitive advantages	<u>.564</u>	.000	.090
	To deter competitive market entry	<u>.469</u>	-.104	.172
	To overcome governmental trade barriers	<u>.627</u>	.160	.131
	To generate profit in China	<u>.625</u>	.004	.045
Efficiency-Seeking	To explore global synergies with other subsidiaries	-.047	<u>.320</u>	-.077
	To spread financial risk	.049	<u>.950</u>	-.137
	To reduce investment exposure	-.096	<u>.846</u>	.093
	To avoid political risk or uncertainties	-.384	<u>.423</u>	.145
	To benefit from low labour cost	.166	<u>.405</u>	.042
Knowledge-Acquiring	To acquire knowledge of the local economy, politics, and culture	.105	-.017	<u>.848</u>
	To acquire local market knowledge	.216	-.008	<u>.720</u>

Extraction Method: Principal Axis Factoring.
Rotation Method: Varimax with Kaiser Normalisation.

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5.4.2.3.   Reliability of strategic objectives factors

To examine the internal consistency of the factor loadings, Cronbach's Alpha was applied. Internal consistency reliabilities theoretically vary from a low of 0 to a high of 1.0 and represent the proportion of the variance in the respondents' scores that are attributable to true differences on the construct (DeVellis, 1991). Nunnaly (1978) has indicated 0.7 to be an acceptable reliability coefficient. However, 0.60 is sometimes used in the literature. The following guidelines have been proposed by DeVellis (1991, p85) regarding acceptable reliabilities for research instrument scales: Below 0.60 is unacceptable; between 0.60 and 0.65 is undesirable; between 0.65 and 0.70 is minimally acceptable; and over 0.70 is acceptable.

The results of Cronbach's Alpha for factor 1, 2, and 3 are 0.6997, 0.6811, and 0.7767, respectively. Therefore, the loading factors were deemed reliable for further examination of the hypothesised model according to DeVellis' (1991) recommendations. The variables were aggregated to measure market-developing-related, efficiency-seeking-related, and knowledge-acquiring-related objectives (Child and Yan, 1999) for further analysis.

5.4.3. Verification of underlying dimension of IJV control

5.4.3.1. Descriptive statistics of Parent Control

Table 5.15 reports the descriptive statistics for 16 control activities. The respondents were asked to rate these 16 activities on a 7-point Likert scale from 1 "Control by Chinese Partner" to 7 "Control by European Partner", while 4 was specified as "Shared Control". Ratings 1, 2, 3 were considered to indicate the Chinese partner exercised control over a specific activity, whereas 5, 6, 7 were deemed to indicate the European partner had the dominant position.

The means of all 16 activities were more than 4. It can therefore be said that the European partner played an overall dominant role in IJV activities. These results are consistent with Vanhonacker's (1997) and Child and Yan's (1999) findings that foreign companies are more likely to seek managerial control over their joint venture in China than their Chinese partners. Taking the fact that two thirds of the European partners held more than 50 percent equity share into consideration, ownership may have an underlying impact on parent control. This is an area for future research.

Examining the mode for these sixteen control activities, ten were overwhelmingly controlled by the European partner. Production-related activities, such as Choice of key product lines, Production planning, Quality control, Product pricing, and R & D planning, were primarily controlled by the European partner. This is consistent with previous studies (e.g. Walsh et al, 1999; Tuan and Ng, 2003) that foreign partners have expertise

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in technology and production know-how and are more willing to manage these joint venture activities.

The activities where control was most shared were Use of profit and Choice of location of JV facilities. This can be explained, in the case of use of profit, by the fact that, Chinese law requires the joint venture partners to clearly state how the profit will be used when it is initially established. Subsequently, there is little debate over profit use by IJV partners. Partners share opinions on choice of location of JV facilities because of technical and pragmatic considerations. From a technical perspective, Chinese partners are state-owned companies, which have redundant production sites to offer. Foreign partners can be selective based on the technical requirements of factory building. Shared management and frequent communication are beneficial to both parties. From a pragmatic perspective, JV location is associated with complex national territory policies, which sometimes involve long bureaucratic procedures. This can also be considered as the contribution of the Chinese partner in managing government issues.

One area where most control was exercised by the Chinese partner was managing legal or government relations. There is little difficulty in understanding that Chinese partners know better how to cope with legal and governmental issues concerning joint ventures in China than their European partners.

Table 5.15 Descriptive Statistics for IJV Control Activities

	Mode	Mean	European Partner Control		Shared Control		Chinese Partner Control	
			N	%	N	%	N	%
Setting JV strategic priority	7	5.48	41	67.2	18	29.5	2	3.2
Use of profit	4	4.49	22	36.1	**35**	**57.4**	4	5.5
Choice of key product lines	7	5.85	**51**	**83.6**	7	11.5	3	4.9
Allocating senior management positions	4	5.30	41	67.2	16	26.2	4	5.5
Choice of location of JV facilities	4	4.38	19	31.1	**35**	**57.4**	7	11.4
Choice of geographic market scope	7	5.31	38	62.3	16	26.2	7	11.5
Choice of major capital financing	4	5.16	36	59	20	32.8	5	8.2
Production planning	7	5.56	**48**	**78.7**	7	11.5	6	9.8
R & D planning	7	5.87	**48**	**78.7**	7	11.5	6	9.8
Product pricing	7	5.56	**46**	**75.4**	6	9.8	9	14.8
Sales and distribution	7	5.46	42	68.9	9	14.8	10	16.4
Quality control	7	5.75	**48**	**78.7**	7	11.5	6	9.8
Reward and incentive policies	4	4.97	33	54.1	20	32.8	8	13.1
Training and development policies	7	5.30	39	63.9	14	23.0	8	13.1
General management	7	5.16	38	62.3	15	24.6	8	13.1
Managing legal or government relations	4	4.07	20	32.8	19	31.1	**22**	**36.1**

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5.4.3.2. Verification of Control factors

Based on the findings of prior studies, parent control has two dimensions: strategic and operational control (Child, 1997; Child and Yan, 2001). As a check on these two dimensions of parent control, a confirmatory factor analysis was conducted on the 16 strategic and operational control activities.

Activities 1 to 7 and activities 8 to 16 were intended to measure strategic and operational control, respectively. The principal axis factoring was used as the type of extracting method in confirmatory factor analysis. Rather than setting eigenvalues as 1, which is widely applied in exploratory factor analysis, the extracted number of factors was constrained as 2. A Varimax orthogonal rotation method was applied. The significance of loading must be greater than 0.30 (Churchill, 1991).

As expected, all the seven strategic control activities loaded on Factor 1 and the nine operational control activities loaded on Factor 2, respectively (see Table 5.15). Total explained variance was 62.23%.

5.4.3.3. Reliabilities of Parent Control Factors

The Cronbach's Alpha for the two factors was 0.8946 and 0.9416, respectively, indicating strong composite reliabilities. Therefore, control activities 1 to 7 were aggregated to measure strategic control and activities 8 to 16 were aggregated to measure operational control (Child and Yan, 1999) for further analysis. The mean and standard

deviation of strategic control are 5.13 and 1.10, respectively. The mean and standard

deviation of operational control are 5.29 and 1.38, respectively.

Table 5.15 Factor Analysis of Parent Control

		Factor	
		1	2
Strategic Control	Setting JV strategic priority	.368	**.770**
	Use of profit	.185	**.624**
	Choice of key product lines	.357	**.675**
	Allocating senior management positions	.320	**.753**
	Choice of location of JV facilities	.294	**.659**
	Choice of geographic market scope	.443	**.610**
	Choice of major capital financing	.449	**.519**
Operational Control	Production planning	**.779**	.318
	R & D planning	**.659**	.368
	Product pricing	**.614**	.511
	Sales and distribution	**.772**	.333
	Quality control	**.701**	.333
	Reward and incentive policies	**.721**	.427
	Training and development policies	**.865**	.243
	General management	**.708**	.458
	Managing legal or government relations	**.530**	.518

Extraction Method: Principal Axis Factoring.

Rotation Method: Varimax with Kaiser Normalisation.

5.5. Moderating effects of parent control on strategic objectives

Now that the underlying dimensions of the strategic objectives and control variables have been verified using descriptive statistics and factor analysis, it is appropriate to use this data to test the hypotheses developed for this study. Hypotheses H1 through H8 are tested by moderated hierarchical multiple regression. IJV Age and European partner total equity share holding in the IJV are used as control variables to determine whether they had the potential to confound results.

The moderated hierarchical multiple regression equation was:

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_{1i} X_2 + \beta_5 X_{1i} X_3 + X_4 + X_5$$

Where: $Y_{i\ (i=1-8)}$ = Satisfaction with Respective Strategic Objective

$X_{1i\ (i=1-8)}$ = Respective Strategic Objectives

X_2 = Strategic Control

X_3 = Operational Control

$X_{1i}X_2$ = Interaction between Respective Strategic Objective and Strategic Control

$X_{1i}X_3$ = Interaction between Respective Strategic Objective and Operational Control

X_4 = IJV Age

X_5 = European partner total equity share holding in the IJV

Table 5.16 provides a summary of the correlation between all major constructs employed in later analysis. The significance levels of these coefficients have important consequences for the regression models.

Table 5.16 Pearson's Correlation of Agreement with Strategic Objectives, Strategic Control, Operational Control, and Satisfaction with performance

	STCO	OPCO	AO-ECMF	AO-DCME	AO-OGTB	AO-EGSS	AO-SPFR	AO-APRU	AO-AKLE	AO-ALMK
STCO	1	.788**	.616**	.231	.076	-.407**	-.403**	-.287*	.336**	.236
OPCO	.788**	1	.585**	.005	-.044	-.386**	-.360**	-.229	.287*	.174
SP-ECMF	.433**	.583**	.584**	-.031	-.026	-.319**	-.322**	-.279*	.080	.056
SP-DCME	.636**	.371**	.335*	.429**	.243	-.081	-.248	-.106	.300*	.344*
SP-OGTB	.157	.039	.106	.289*	.209	.220	-.031	-.175	.461**	.389**
SP-EGSS	-.328*	-.312*	-.390**	.113	-.047	.632**	.055	.069	.000	.055
SP-SPFR	-.325*	-.217	-.274*	.036	.211	.306*	.673**	.182	.006	.144
SP-APRU	.258*	.312*	.276*	.320*	.326*	-.085	.021	-.223	.361**	.324*
SP-AKLE	.181	.315*	.452**	.010	.156	-.276*	-.146	.099	.211	-.003
SP-ALMK	.135	.252	.177	-.065	-.166	-.046	.006	.156	.311*	.240

Where:

STCO	Strategic Control	OPCO	Operational Control
AO-ECMF	Agreement "To enter Chinese market faster" Objective	SP-ECMF	Satisfaction with "To enter Chinese market faster" Objective Performance
AO-DCME	Agreement "To deter competitive market entry" Objective	SP-DCME	Satisfaction with "To deter competitive market entry" Objective Performance
AO-OGTB	Agreement "To overcome governmental trade barriers" Objective	SP-OGTB	Satisfaction with "To overcome governmental trade barriers" Objective Performance
AO-EGSS	Agreement "To explore global synergies with other subsidiaries" Objective	SP-EGSS	Satisfaction with "To Satisfaction with "explore global synergies with other subsidiaries" Objective Performance
AO-SFR	Agreement "To spread financial risk" Objective	SP-SFR	Satisfaction with "To spread financial risk" Objective Performance
AO-APRU	Agreement "To avoid political risk or uncertainties" Objective	SP-APRU	Satisfaction with "To avoid political risk or uncertainties" Objective Performance
AO-AKLE	Agreement "To acquire knowledge of the local economy, politics, and culture" Objective	SP-AKLE	Satisfaction with "To acquire knowledge of the local economy, politics, and culture" Objective Performance
AO-ALMK	Agreement "To acquire local market knowledge" Objective	SP-ALMK	Satisfaction with "To acquire local market knowledge" Objective Performance

5.5.1. Multicollinearity and Centered-Mean items

Multicollinearity exists when there is a strong correlation between two or more predictors in a regression mode (Lubinski and Humphreys, 1991). The literature indicates that in order to eliminate multicollinearity problems between the independent variables and the interaction items, predictor variables should be centered prior to computing the product items (Aguinis, 1995; Jaccard *et al*, 1995). This manipulation is important because when multicollinearity is present in a moderated multiple regression, the error terms rise and as a result, the predictive power of the model is greatly reduced. Centering is a straightforward transformation where the mean for a variable is subtracted from all cases resulting in a transformed mean of zero while distributions are unaffected (Jaccard *et al*, 1995). In this study, to represent the interaction between strategic objectives and the two dimensions of control, the variables were first centered and then multiplied together.

For example, to compute how strategic control moderates the objective "To Enter Chinese Market Faster", the multiple regression equation was:

$$Y_1 = \beta_0 + \beta_1 X_{11} + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_{11} X_2 + \beta_5 X_{11} X_3 + X_4 + X_5$$

Where: Y_1 = Satisfaction with "To Enter Chinese Market Faster" Objective

X_{11} = "To Enter Chinese Market Faster" objective

X_2 = Strategic Control

X_3 = Operational Control

$X_{11} X_2$ = Interaction between "To Enter Chinese Market Faster" Objective and Strategic Control

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$X_{11}X_3$ = Interaction between "To Enter Chinese Market Faster" Objective and Operational Control

X_4 = IJV Age

X_5 = European partner total equity share holding in the IJV

Therefore, the interaction term $X_{11}X_2$ and $X_{11}X_3$ were centered as below:

$X_{11}X_2 = (X_{11} - 5.39) * (X_2 - 5.13)$

$X_{11}X_3 = (X_{11} - 5.39) * (X_3 - 5.29)$

Where: the mean scores of X_{11}, X_2, and X_3 were 5.39, 5.13, and 5.29, respectively

5.5.2.   Hypotheses testing of H1 – H8

H1a & H1b

H1a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between fast market entry and satisfaction with performance in relation to this objective: when the strategic control is high, fast market entry and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, fast market entry and satisfaction with performance in relation to this objective is negatively related.

H1b: Operational control that the foreign parent exercises over IJV will moderate the relationship between fast market entry and satisfaction with performance in relation

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to this objective: when the operational control is high, fast market entry and satisfaction with performance in relation to this objective is negatively related; when the operational control is low, fast market entry and satisfaction with performance in relation to this objective is positively related.

The hypotheses H1a and H1b proposed that high strategic control moderated the relationship between the objective "To Enter Chinese Market Faster" and satisfaction with performance in relation to this objective. Table 5.17 presents the three hierarchical regression models. In the first model, the objective "To Enter Chinese Market Faster", IJV age, and equity shareholding were entered. Strategic control and operational control were entered in the second model. After being centered, the interaction items were entered in the third model.

The results clearly show that the interaction items improved the explanatory power of the model, although the increments in R^2 were relatively small ($\Delta R^2 = .079$, $F = 9.452$, $p < .001$). The p values associated with the interaction items were less than 0.05 and thus achieved significance. Therefore, it can be concluded that strategic and operational control did have a strong moderating effect on the relationship between the objective "To Enter Chinese Market Faster" and satisfaction with objective performance in relation to that objective.

Table 5.17 Hierarchical Regression of "To Enter Chinese Market Faster", Strategic and Operational Control on Satisfaction with Performance

Model	Variables	Unstandardised Coefficients	R^2	ΔR^2	F
1	Constant	1.729	.384		11.826***
	IJV Age	− .047			
	Held Share	.013			
	To Enter Chinese Market Faster	.549***			
2	Constant	2.030	.462	.079	9.452***
	IJV Age	−.040			
	Held Share	.007			
	To Enter Chinese Market Faster	.452**			
	Strategic Control	−.280			
	Operational Control	.376			
3	Constant	.697	.886	.423	58.632***
	IJV Age	−.049*			
	Held Share	.001			
	To Enter Chinese Market Faster	.794***			
	Strategic Control	−.367***			
	Operational Control	.394***			
	Interaction between "To Enter Chinese Market Faster" and Strategic Control	.172**			
	Interaction between "To Enter Chinese Market Faster" and Operational Control	.133*			

$^{*}p \leq .05$, $^{**}p \leq .01$, $^{***}p \leq .001$

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However, since the form of interaction has not yet been clearly specified, other valuable information might be ignored by concluding the analysis at this point. One way to achieve a better understanding of the pattern of interaction between the independent and dependent variables is to plot the within-subgroup regression equations. Take H1a as an example to make a full illustration.

Table 5.17 indicates that after both dimensions of parent control are added to the equation (model 2), the R^2 changes from .384 to .462. The F statistic is 9.452 and it is significant at the 0.001 level, which implies that added variables significantly improve the overall model's explanatory power. When the interaction items are added to the equation (model 3), the R square is further increased to .886, which implies that the model explains 88.6% of variance in the dependent variable. The corresponding F statistic is 58.632, which is significant at the 0.001 level. This shows that interaction items significantly improve the overall model's explanatory power. Therefore, the multiple regression equation below can be obtained:

$$Y_1 = \beta_0 + \beta_1 X_{11} + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_{11} X_2 + \beta_5 X_{11} X_3 + X_4 + X_5$$

$$= .697 + .794 X_{11} - .367 X_2 + .394 X_3 + .172 X_{11} X_2 + .133 X_{11} X_3$$

After the interaction items were centered, the equation was:

$$Y_1 = .697 + .794 X_{11} - .367 X_2 + .394 X_3 + .172 (X_{11} - 5.39)(X_2 - 5.13)$$

$$+ .133 (X_{11} - 5.39)(X_3 - 5.29)$$

In order to calculate interaction between Strategic control and the objective "To Enter Chinese Market Faster", the following computation was conducted.

First, to examine the interaction between the objective "To Enter Chinese Market Faster" and strategic control, the variable X_3 (operational control) was replaced by its mean value (μ) 5.29:

$$Y_1 = 2.733 + .794X_{11} - .367X_2 + .394X_3 + .172(X_{11} - 5.39)(X_2 - 5.13)$$

The relationship between the independent variable, the objective "To Enter Chinese Market Faster", and the dependent variable, Satisfaction with performance in relation to this objective, should be ascertained when the moderator, strategic control exercised by the foreign parent over IJV, is converted by using values one standard deviation above variable mean, $\mu+\sigma$, mean value, μ, and one standard deviation below the mean, $\mu-\sigma$, which will represent high level strategic control, shared control, and low level strategic control. Thus,

High Level of Strategic Control	When $X_2 = \mu+\sigma$:	$Y_1 = -.542 + .983X_{11}$
Shared Control	When $X_2 = \mu$:	$Y_1 = .85 + .794X_{11}$
Low Level of Strategic Control	When $X_2 = \mu-\sigma$:	$Y_1 = 2.273 + .605X_{11}$

The plot presented in Figure 5.4 shows that when the level of strategic control is high ($X_2 = \mu + \sigma$), the objective "To Enter Chinese Market Faster" (X_{11}) is highly positively related to satisfaction with performance in relation to this objective (Y_1). When the strategic control is shared ($X_2 = \mu$), the relationship is positive. When the level of strategic control exercised by the foreign parent is low ($X_2 = \mu - \sigma$), the relationship is highly positive as well. The results are plotted as Figure 5.4. The X-axis reflects the objective "To enter Chinese market faster" and the Y-axis reflects Satisfaction with Performance in relation to this objective. Therefore, positively moderating effect of high strategic control received support. However, negatively moderating effect for a low strategic control did not obtain support.

Operational control can be examined in a similar way. The variable strategic control X_2 was replaced by its mean 5.13:

$$Y_1 = .697 + .794X_{11} - .367X_2 + .394X_3 + .172(X_{11} - 5.39)(X_2 - 5.13)$$

$$+ .133(X_{11} - 5.39)(X_3 - 5.29)$$

$$= -1.234 + .794X_{11} + .394X_3 + .133(X_{11} - 5.39)(X_3 - 5.29)$$

High Level of Operational Control	When $X_3 = \mu + \sigma$:	$Y_1 = .402 + .978X_{11}$
Shared Control	When $X_3 = \mu$:	$Y_1 = .85 + .794X_{11}$
Low Level of Operational Control	When $X_3 = \mu - \sigma$	$Y_1 = 1.299 + .61X_{11}$

The results indicate that when the level of operational control level is high, the objective "To Enter Chinese Market Faster" is positively related to satisfaction with performance in relation to this objective. The shared and low levels of operational control also lead to a positive relationship. Figure 5.5 graphs the results.

Therefore, for both high and low levels of strategic control, the relationship between "To Enter Chinese Market Faster" and Satisfaction with Performance is positive. The hypothesized moderating effect of a high level of strategic control is supported, whereas the moderating effect predicted for a low level of strategic control is not supported. Therefore, H1a is partially supported.

Similarly, for both high and low levels of operational control, the relationship between "To Enter Chinese Market Faster" and Satisfaction with Performance is positive. The hypothesized moderating effect of a high level of operational control is not supported, whereas the moderating effect of a low level of operational control is supported. Therefore, H1b is partially supported.

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Figure 5-4 Interaction Between "To Enter Chinese Market Faster" and Strategic control

"To Enter Chinese Market Faster" Objective
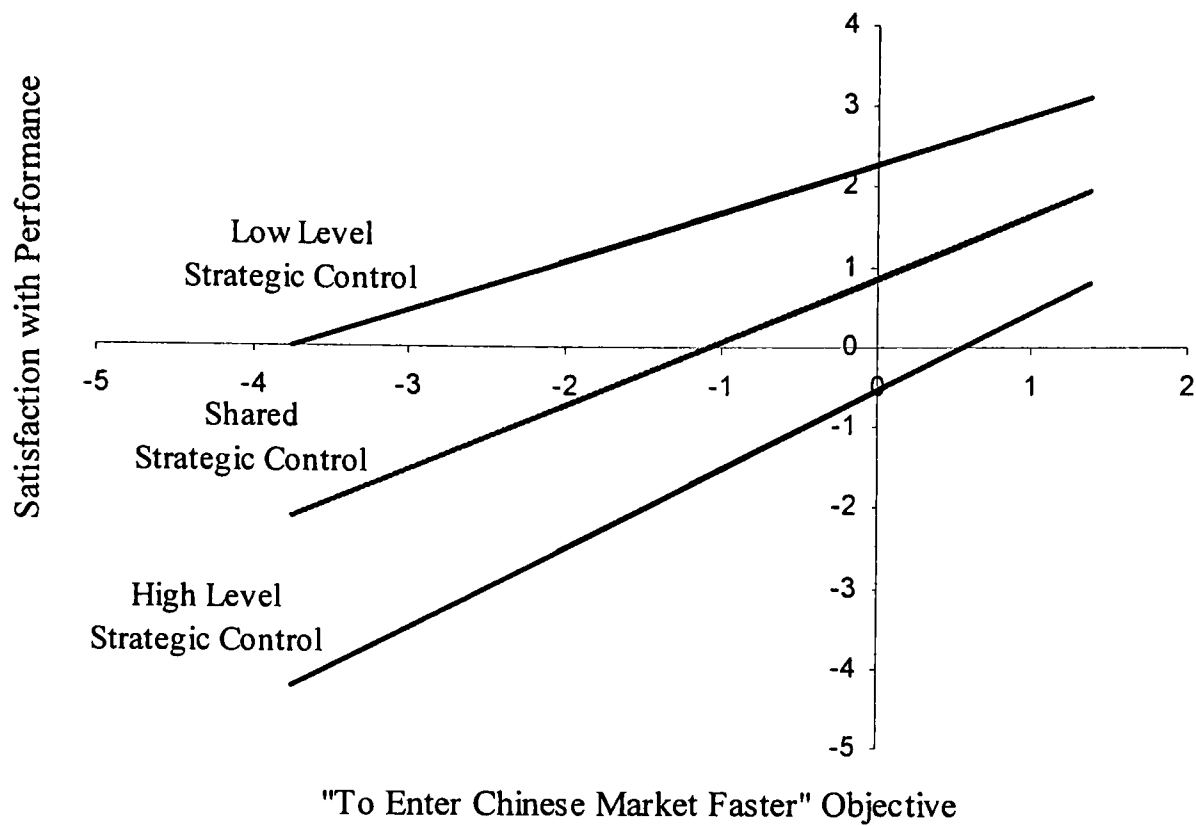
Figure 5-5 Interaction between "To Enter Chinese Market Faster" and Operational Control

"To Enter Chinese Market Faster" Objective

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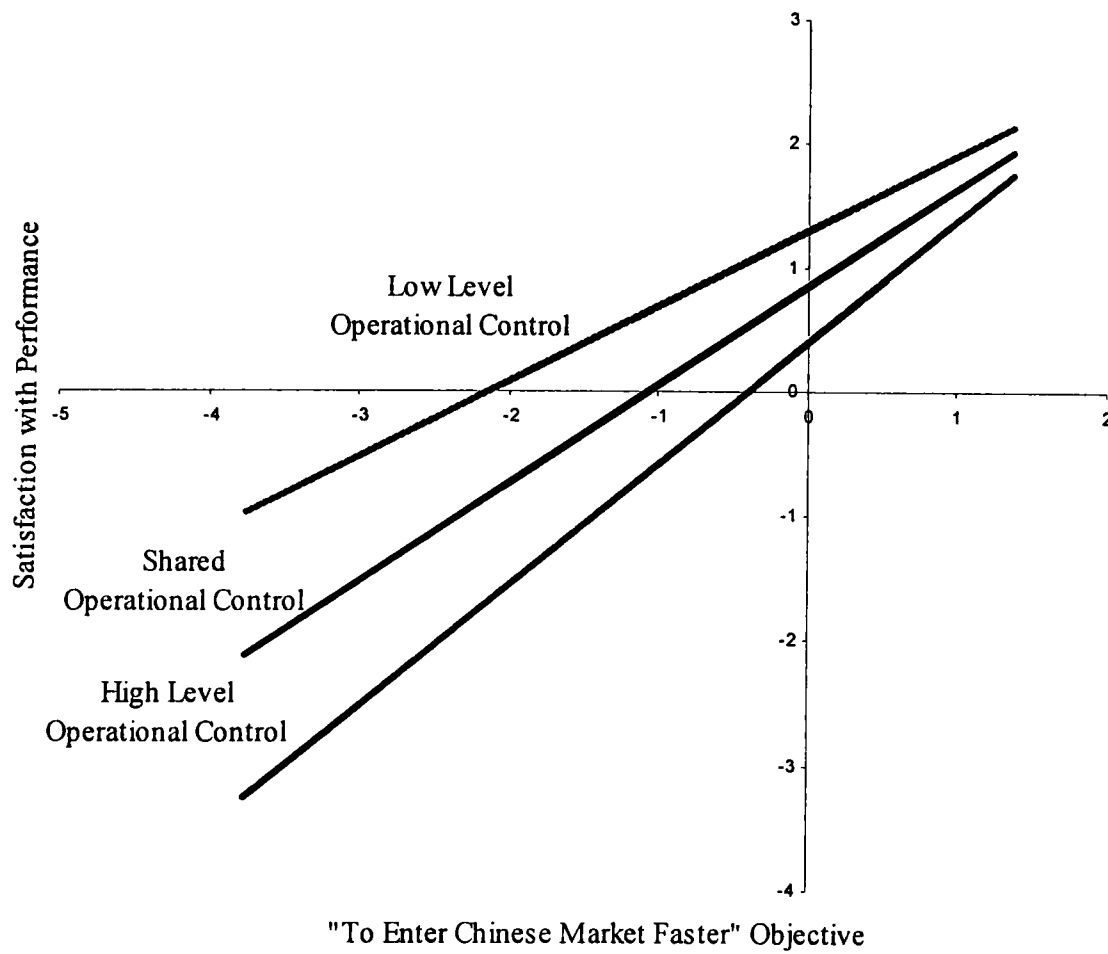
H2a and H2b

H2a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between managing competition and satisfaction with performance in relation to this objective: when the strategic control is high managing competition and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, managing competition and satisfaction with performance in relation to this objective is negatively related.

H2b: Operational control that the foreign parent exercises over IJV will moderate the relationship between managing competition and satisfaction with performance in relation to this objective: when the operational control is high, managing competition and satisfaction with performance in relation to this objective is positively related; when the operational control is low, managing competition and satisfaction with performance in relation to this objective is negatively related.

H2a and H2b are related to the objective of managing competition objective. Table 5.18 indicates that neither strategic control interaction nor operational control interaction achieved significance. It can be inferred that neither strategic control nor operational control moderates the relationship between managing competition and satisfaction with performance in relation to this objective. Therefore, H2a and H2b were not supported.

Table 5.18 Hierarchical Regression of "To Manage Competition", Strategic and Operational Control on Satisfaction with Objective Performance

Model	Variables	Unstandardised Coefficients	R^2	ΔR^2	F
1	Constant	2.658	.195		4.616***
	IJV Age	.035			
	Held Share	.011			
	To Managing Competition	.322***			
2	Constant	1.369	.469	.274	9.728***
	IJV Age	.054			
	Held Share	−.002			
	To Managing Competition	.172*			
	Strategic Control	.682***			
	Operational Control	−.156			
3	Constant	1.812	.494	.025	7.406***
	IJV Age	.046			
	Held Share	−.003			
	To Managing Competition	.146			
	Strategic Control	.671***			
	Operational Control	−.182			
	Interaction between "To Managing Competition" and Strategic Control	−.128			
	Interaction between "To Managing Competition" and Operational Control	.052			

*p<.05, **p<.01, ***p<.001

H3a and H3b

H3a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between overcoming government barriers and satisfaction with performance in relation to this objective: when the strategic control is high overcoming government barriers and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, overcoming government barriers and satisfaction with performance in relation to this objective is negatively related.

H3b: Operational control that the foreign parent exercises over IJV will moderate the relationship between overcoming government barriers and satisfaction with performance in relation to this objective: when the operational control is high, overcoming government barriers and satisfaction with performance in relation to this objective is positively related; when the operational control is low, overcoming government barriers and satisfaction with performance in relation to this objective is negatively related.

H3a and H3b hypothesized moderating effects of control on the objective "To Overcome governmental Barriers" objective and satisfaction with objective performance in relation to this objective. The hierarchical multiple regression equation is:

$Y_3 = \beta_0 + \beta_1 X_{31} + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_{31} X_2 + \beta_5 X_{31} X_3 + X_4 + X_5$

Where: Y_3 = Satisfaction with "To Overcome Governmental Barriers" Objective

X_{31} = "To Overcome Governmental Barriers" Objective

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X_2 = Strategic Control

X_3 = Operational Control

$X_{31}X_2$ = Interaction between "To Overcome Governmental Barriers" Objective and Strategic Control

$X_{31}X_3$ = Interaction between "To Overcome Governmental Barriers" Objective and Operational Control

X_4 = IJV Age

X_5 = European partner total equity share holding in the IJV

Table 5.19 indicates that interaction items significantly improve the overall model's explanatory power (R^2 =.246, F=2.471, p<.05). Therefore, the multiple regression equation can be obtained:

$$Y_3 = 2.846 + .205X_{31} + .510X_2 - .156X_3 + .465(X_{31}-4.79)(X_2-5.13)$$
$$- .335(X_{31}-4.79)(X_3-5.29)$$

Table 5.19 Hierarchical Regression of "To Overcome Governmental Barriers", Strategic and Operational Control on Satisfaction with Objective Performance

Model	Variables	Unstandardised Coefficients	R^2	ΔR^2	F
1	Constant	5.009	.054		1.074
	IJV Age	−.031			
	Held Share	−.007			
	To Overcome Governmental Barriers	.140			
2	Constant	4.291	.082	.029	1.983*
	IJV Age	−.023			
	Held Share	−.009			
	To Overcome Governmental Barriers	.118			
	Strategic Control	.301			
	Operational Control	−.123			
3	Constant	2.846	.246	.164	2.471*
	IJV Age	.018			
	Held Share	−.014			
	To Overcome Governmental Barriers	.205*			
	Strategic Control	.510*			
	Operational Control	−.156			
	Interaction between "To Overcome Governmental Barriers" and Strategic Control	.465***			
	Interaction between "To Overcome Governmental Barriers" and Operational Control	−.335**			

*p<.05, **p<.01, ***p<.001

To further examine the interaction between strategic control and "To Overcome Governmental Barriers", X3 (operational control) was replaced by its mean 5.29. Hence:

$$Y_3 = 2.021 + .205X_{31} + .510X_2 + .465(X_{31}-4.79)(X_2-5.13)$$

High Level of Strategic Control	When $X_2 = \mu+\sigma$:	$Y_3 = 2.745 + .717X_{31}$
Shared Control	When $X_2 = \mu$:	$Y_3 = 4.637 + .205X_{31}$
Low Level of Strategic Control	When $X_2 = \mu-\sigma$:	$Y_3 = 6.529 - .307X_{31}$

Figure 5-6 Interaction between "To Overcome Governmental Barriers" and Strategic Control
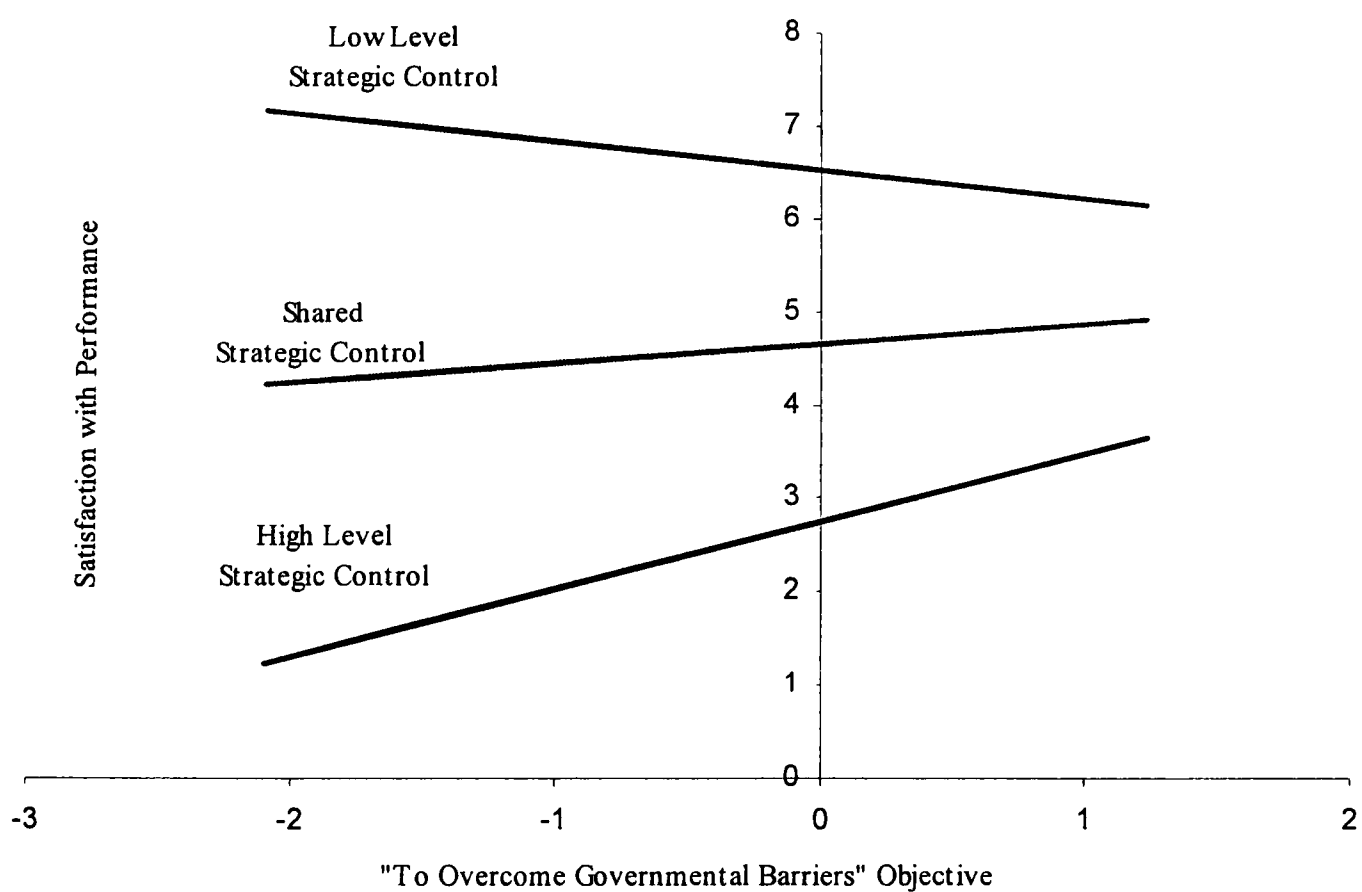
"To Overcome Governmental Barriers" Objective

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To examine the interaction between strategic control and "To Spread Financial

Risks", X_2 (strategic control) was replaced by its mean 5.13. Hence:

$$Y_3 = 5.462 + .205X_{31} - .156X_3 - .335(X_{31} - 4.79)(X_3 - 5.29)$$

High Level of Operational Control	When $X_3 = \mu + \sigma$:	$Y_3 = 6.634 - .257X_{31}$
Shared Control	When $X_3 = \mu$:	$Y_3 = 4.637 + .205X_{31}$
Low Level of Operational Control	When $X_3 = \mu - \sigma$	$Y_3 = 2.639 + .667X_{31}$

Figure 5-7 Interaction between "To Overcome Governmental Barriers" and Operational Control

"To Overcome Governmental Barriers" Objective
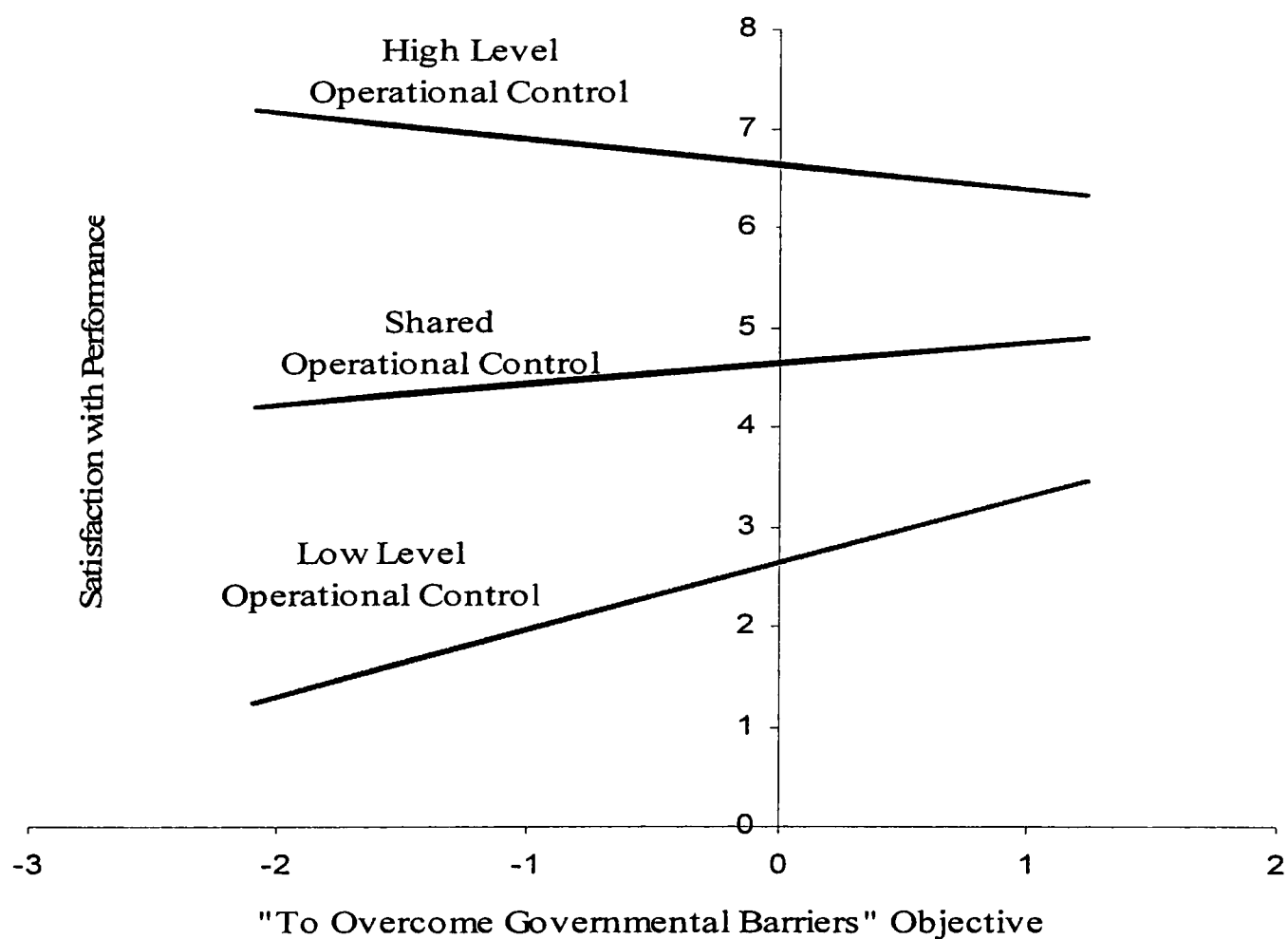
The results indicated that both strategic and operational control moderated the relationship between "To Overcome Governmental Barriers" and satisfaction with performance in relation to this objective. Moreover, Figure 5.6 reveals that from the strategic control perspective, high level strategic control positively moderated the relationship, whereas low level strategic control can result in a negative relationship. From the operational control perspective, Figure 5.7 shows that high and low level operational control negatively and positively moderated the relationship, respectively.

Therefore, H3a is supported, H3b is not supported.

H4a and H4b

H4a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between seeking global synergy and satisfaction with performance in relation to this objective: when the strategic control is high seeking global synergy and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, seeking global synergy and satisfaction with performance in relation to this objective is negatively related.

H4b: Operational control that the foreign parent exercises over IJV will moderate the relationship between seeking global synergy and satisfaction with performance in relation to this objective: when the operational control is high, seeking global synergy and satisfaction with performance in relation to this objective is positively related; when the operational control is low, seeking global synergy and satisfaction with performance in relation to this objective is negatively related.

H4a and H4b proposed moderating effects of control on the objective "To Explore Global Synergy" and satisfaction with performance in relation to this objective. Whereas the score relating to Interaction between "To Explore Global Synergy" and Strategic Control is significant, the score of Interaction between "To Explore Global Synergy" and Operational Control failed to achieve significance (see Table 5.20).

For the interaction between strategic control and objective "To Explore Global Synergy", the following calculation was performed:

$$Y_4 = \beta_0 + \beta_1 X_{41} + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_{41} X_2 + \beta_5 X_{41} X_3 + X_4 + X_5$$

Where:

Y_4 = Satisfaction with "To Explore Global Synergy" Objective

X_{41} = "To Explore Global Synergy"

X_2 = Strategic Control

X_3 = Operational Control

$X_{41} X_2$ = Interaction between "To Explore Global Synergy" Objective and Strategic Control

$X_{41} X_3$ = Interaction between "To Explore Global Synergy" Objective and Operational Control

X_4 = IJV Age

X_5 = European partner total equity share holding in the IJV

To examine the interaction between strategic control and "To Explore Global Synergy", Operational control was replaced by its mean 5.29. Thus:

$$Y_4 = 1.736 + .544 X_{41} + .086 X_2 + .274 (X_{41} - 3.26)(X_2 - 5.13)$$

Table 5.20 Hierarchical Regression of "To Explore Global Synergy", Strategic and Operational Control on Satisfaction with Objective Performance

Model	Variables	Unstandardised Coefficients	R^2	ΔR^2	F
1	Constant	2.540	.382		11.740***
	IJV Age	−.020			
	Held Share	−.001			
	To Explore Global Synergy	.468***			
2	Constant	2.878	.385	.003	6.886***
	IJV Age	−.022*			
	Held Share	.001*			
	To Explore Global Synergy	.451			
	Strategic Control	−.013			
	Operational Control	−.054			
3	Constant	2.186	.487	.102	7.188***
	IJV Age	−.016*			
	Held Share	.004			
	To Explore Global Synergy	.544*			
	Strategic Control	.086			
	Operational Control	−.085			
	Interaction between "To Explore Global Synergy" and Strategic Control	.274*			
	Interaction between "To Explore Global Synergy" and Operational Control	.014			

*p<.05, **p<.01, ***p<.001

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High Level of Strategic Control	When $X_2 = \mu + \sigma$:	$Y_4 = 1.291 + .845X_{11}$
Shared Control	When $X_2 = \mu$:	$Y_4 = 2.177 + .544X_{41}$
Low Level of Strategic Control	When $X_2 = \mu - \sigma$:	$Y_4 = 3.064 + .243X_{11}$

Figure 5-8 Interaction between "To Explore Global Synergies" objective and Strategic Control

"To Explore Global Synergies" objective

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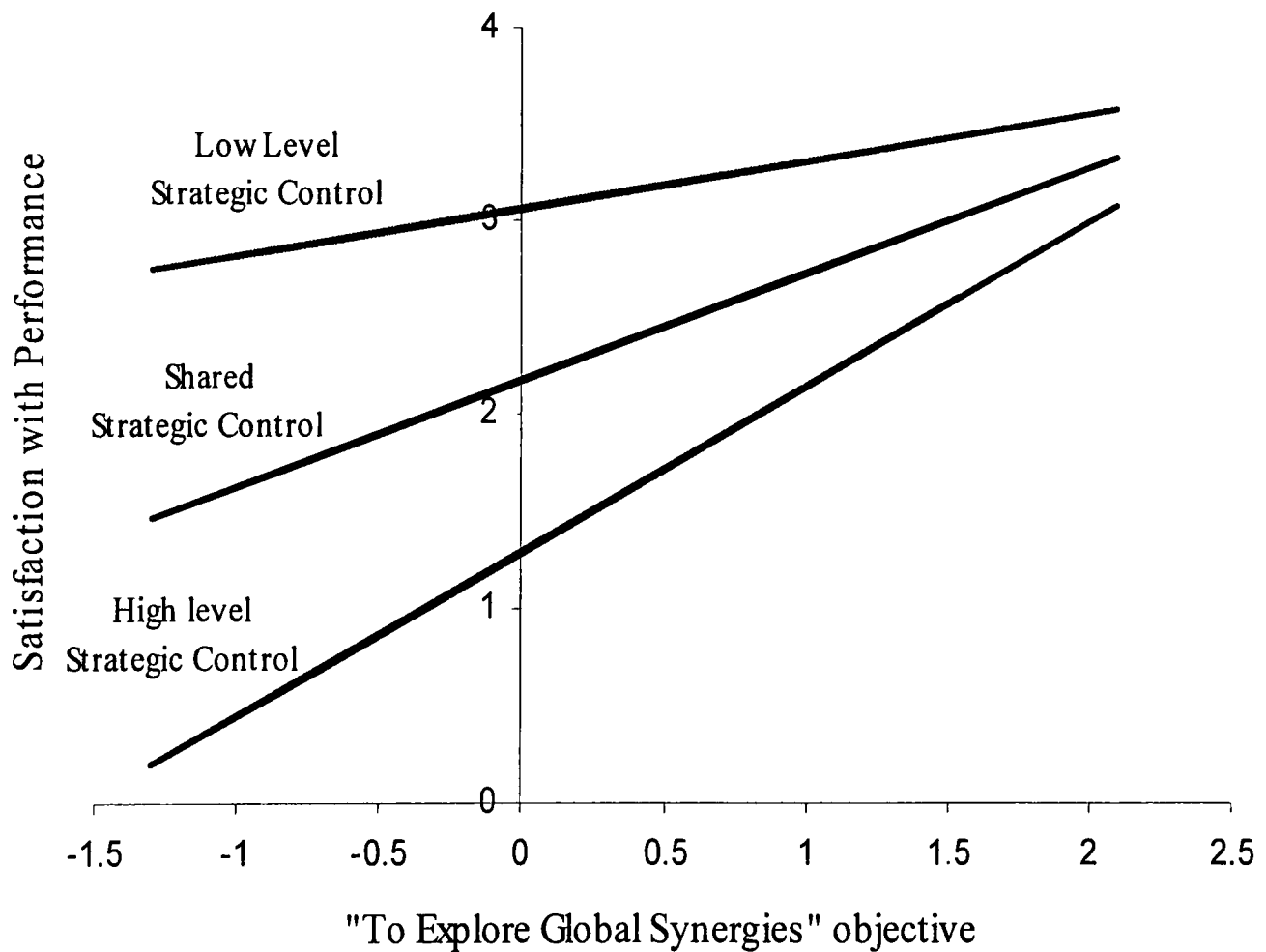
H4a predicted that when strategic control was high, the relationship would be positive; strategic control was low, the relationship would be negative. The result indicates that the relationship was both positive and significant (see Figure 5.8), partially supporting H4a. However, the interaction with operational control was not significant ($\beta=.014$, $p>.05$). Therefore, H4b was not supported.

H5a and H5b

H5a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between spreading financial risk and satisfaction with performance in relation to this objective: when the strategic control is high spreading financial risk and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, spreading financial risk and satisfaction with performance in relation to this objective is negatively related.

H5b: Operational control that the foreign parent exercises over IJV will moderate the relationship between spreading financial risk and satisfaction with performance in relation to this objective: when the operational control is high, spreading financial risk and satisfaction with performance in relation to this objective is negatively related; when the operational control is low, spreading financial risk and satisfaction with performance in relation to this objective is positively related.

H5a and H5b hypothesized moderating effects of parent control on "To Spread Financial Risks" and satisfaction with performance in relation to objective. From Table 5.21, the hierarchical multiple regression equation is obtained:

$$Y_5 = 2.720 + .566X_{51} - .332X_2 + .264X_3 + .411(X_{51}-3.00)(X_2-5.13)$$
$$- .327(X_{51}-3.00)(X_3-5.29)$$

Where: Y_5 = Satisfaction with "To Spread Financial Risks" Objective

X_{51} = To Spread Financial Risks

X_2 = Strategic Control

X_3 = Operational Control

$X_{51}X_2$ = Interaction between "To Spread Financial Risks" Objective and Strategic

Control

$X_{51}X_3$ = Interaction between "To Spread Financial Risks" Objective and

Operational Control

X_4 = IJV Age

X_5 = European partner total equity share holding in the IJV

Table 5.21 Hierarchical Regression of "To Spread Financial Risks", Strategic and Operational Control on Satisfaction with Objective Performance

Model	Variables	Unstandardised Coefficients	R^2	ΔR^2	F
1	Constant	1.871	.453		15.723***
	IJV Age	.043			
	Held Share	-.013			
	To Spread Financial Risks	.612***			
2	Constant	2.300	.468	.015	9.675***
	IJV Age	.040			
	Held Share	-.016			
	To Spread Financial Risks	.602***			
	Strategic Control	-.305			
	Operational Control	.254			
3	Constant	2.697	.524	.056	8.337***
	IJV Age	.041			
	Held Share	-.018			
	To Spread Financial Risks	.566***			
	Strategic Control	-.332			
	Operational Control	.264			
	Interaction between "To Spread Financial Risks" and Strategic Control	.411*			
	Interaction between "To Spread Financial Risks" and Operational Control	-.327*			

*p<.05, **p<.01, ***p<.001

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To examine the interaction between strategic control and "To Spread Financial Risks", X_3 (operational control) was replaced by its mean 5.29. Hence:

$$Y_5 = 4.096 + .566X_{51} - .332X_2 + .411(X_{51}-3.00)(X_2-5.13)$$

High Level of Strategic Control	When $X_2 = \mu + \sigma$:	$Y_5 = .672 + 1.018X_{51}$
Shared Control	When $X_2 = \mu$:	$Y_5 = 2.393 + .566X_{51}$
Low Level of Strategic Control	When $X_2 = \mu - \sigma$:	$Y_5 = 4.114 + .114X_{51}$

**Figure 5-9 Interaction Between "To Spread Financial Risks"
and strategic control**
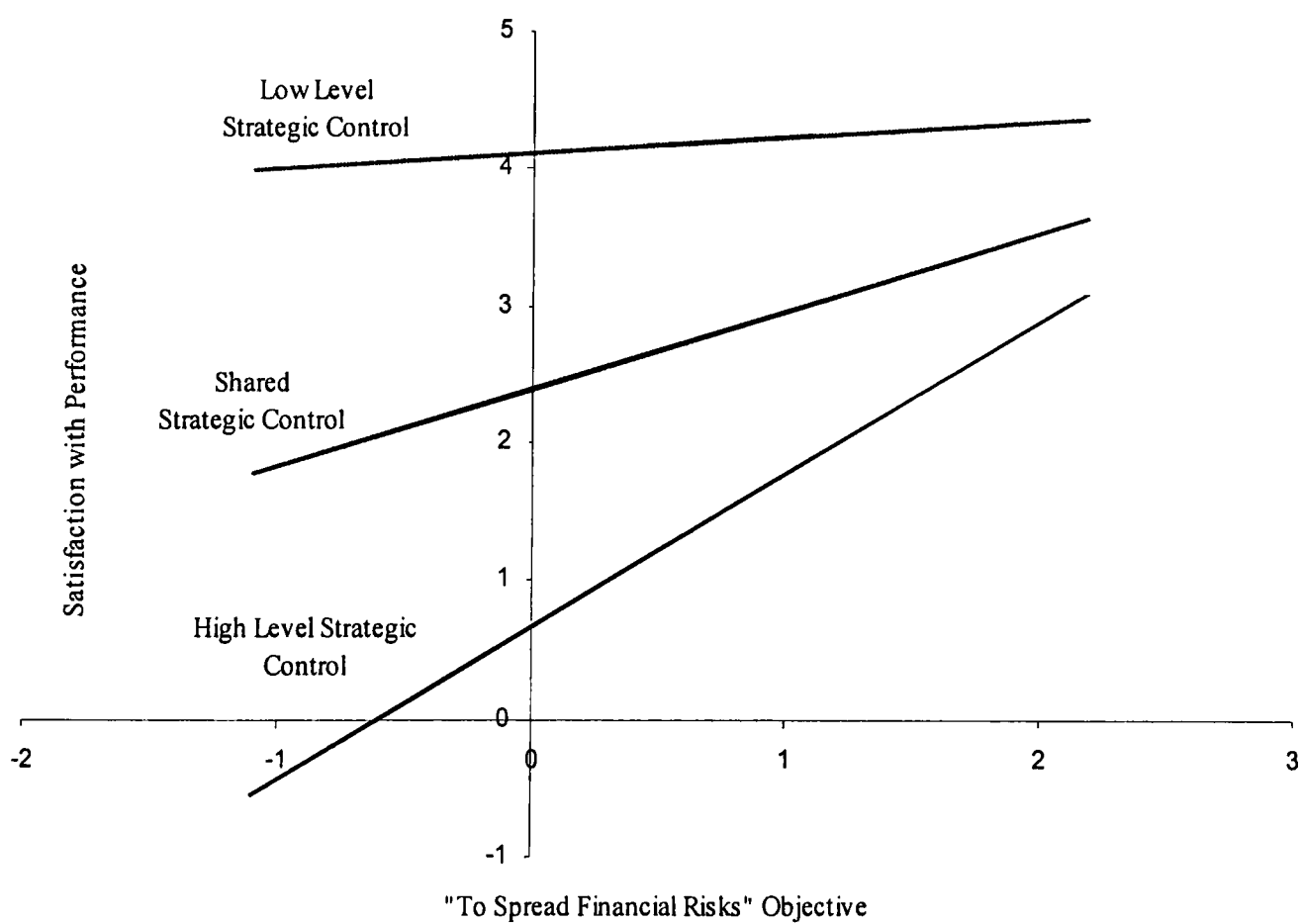
"To Spread Financial Risks" Objective

To examine the interaction between strategic control and "To Spread Financial

Risks", X_2 (strategic control) was replaced by its mean 5.13. Hence:

$$Y_5 = .994 + .566X_{51} + .264X_3 - .327(X_{51}-3.00)(X_3-5.29)$$

High Level of Operational Control	When $X_3 = \mu + \sigma$:	$Y_5 = 4.108 + .115X_{51}$
Shared Control	When $X_3 = \mu$:	$Y_5 = 2.391 + .566X_{51}$
Low Level of Operational Control	When $X_3 = \mu - \sigma$	$Y_5 = .673 + 1.017X_{51}$

**Figure 5-10 Interaction between "To Spread Financial Risks"
and Operational Control**

"To Spread Financial Risks" Objective
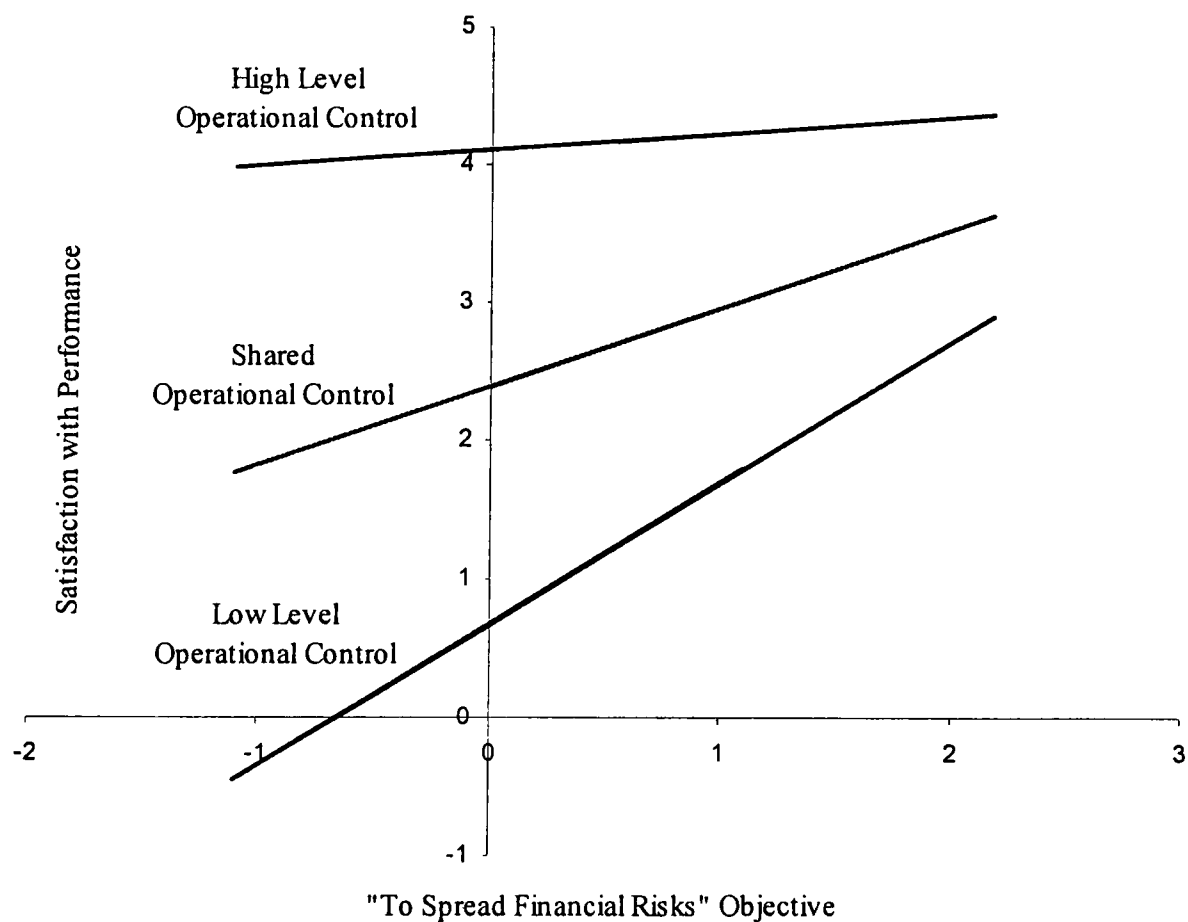
The results indicate that when strategic control is high, the relationship between dependent and independent variables is positively related, which is in accordance with what was proposed. When strategic control is low, the relationship is positively related, which contradicts the hypothesized moderating effect of low strategic control (see Figure 5.9). Therefore H5a is partially supported.

The results also showed that when operational control is at both high and low ends of the spectrum, the relationship between the objective "To spread financial risk" and satisfaction with performance in relation to this objective is positive (see Figure 5.10). Moreover, the higher level strategic control leads to better satisfaction. The proposed moderating effect of high operational control did not receive support, whereas low operational control did. Hence, H5b is partially supported.

H6a and H6b

H6a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between avoiding political uncertainty and satisfaction with performance in relation to this objective: when the strategic control is high avoiding political uncertainty and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, avoiding political uncertainty and satisfaction with performance in relation to this objective is negatively related.

H6b: Operational control that the foreign parent exercises over IJV will moderate the relationship between avoiding political uncertainty and satisfaction with performance in relation to this objective: when the operational control is high, avoiding political uncertainty and satisfaction with performance in relation to this objective is negatively related; when the operational control is low, avoiding political uncertainty and satisfaction with performance in relation to this objective is positively related.

H6a and H6b hypothesized moderating effects on objective "To Avoid Political Risk and Uncertainties" objective and satisfaction with performance in relation to this objective. Since both interaction with strategic control (β=.019, p>.1) and operational control (β=.031, p>.1) failed to achieve significance (see Table 5.22), H6a and H6b are not supported.

Table 5.22 Hierarchical Regression of "To Avoid Political Risk and Uncertainties", Strategic and Operational Control on Satisfaction with Objective Performance

Model	Variables	Unstandardised Coefficients	R^2	ΔR^2	F
1	Constant	7.009			
	IJV Age	.020			
	Held Share	−.027**	.130		2.853*
	To Avoid Political Risk and Uncertainties	−.166			
2	Constant	5.452			
	IJV Age	.029			
	Held Share	−.039			
	To Avoid Political Risk and Uncertainties	−.106	.270	.140	4.066**
	Strategic Control	−.008			
	Operational Control	.390*			
3	Constant	5.493			
	IJV Age	.032			
	Held Share	−.040**			
	To Avoid Political Risk and Uncertainties	−.100			
	Strategic Control	−.023			
	Operational Control	.398*	.277	.007	2.897*
	Interaction between "To Avoid Political Risk and Uncertainties" and Strategic Control	.019			
	Interaction between "To Avoid Political Risk and Uncertainties" and Operational Control	.031			

*p<.05, **p<.01, ***p<.001

H7a and H7b

H7a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between acquiring country-specific knowledge and satisfaction with performance in relation to this objective: when the strategic control is high acquiring country-specific knowledge and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, acquiring country-specific knowledge and satisfaction with performance in relation to this objective is negatively related.

H7b: Operational control that the foreign parent exercises over IJV will moderate the relationship between acquiring country-specific knowledge and satisfaction with performance in relation to this objective: when the operational control is high, acquiring country-specific knowledge and satisfaction with performance in relation to this objective is negatively related; when the operational control is low, acquiring country-specific knowledge and satisfaction with performance in relation to this objective is positively related.

H7a and H7b hypothesized moderating effects of parent control on objective "To Acquire Country Specific Knowledge" and satisfaction with performance in relation to this objective. From Table 5.23, the hierarchical multiple regression equation is obtained:

$$Y_7 = 2.599 + .198X_{71} + .205X_2 + .154X_3 + .556(X_{71}-5.03)(X_2-5.13)$$
$$- .395(X_{71}-5.03)(X_3-5.29)$$

Where:

Y_7 = Satisfaction with "To Acquire Country Specific Knowledge" Objective

X_{71} = To Acquire Country Specific Knowledge

X_2 = Strategic Control

X_3 = Operational Control

$X_{71}X_2$ = Interaction between "To Acquire Country Specific Knowledge"

Objective and Strategic Control

$X_{71}X_3$ = Interaction between "To Acquire Country Specific Knowledge"

Objective and Operational Control

X_4 = IJV Age

X_5 = European partner total equity share holding in the IJV

Table 5.23 Hierarchical Regression of "To Acquire Country Specific Knowledge", Strategic and Operational Control on Satisfaction with Objective Performance

Model	Variables	Unstandardised Coefficients	R^2	ΔR^2	F
1	Constant	4.204			
	IJV Age	.060			
	Held Share	−.006	.061		1.225
	To Acquire Country Specific Knowledge	1.65			
2	Constant	3.870			
	IJV Age	.064			
	Held Share	−.015			
	To Acquire Country Specific Knowledge	.116	.151	.090	1.953
	Strategic Control	−.248			
	Operational Control	.452*			
3	Constant	2.529			
	IJV Age	.087			
	Held Share	−.017			
	To Acquire Country Specific Knowledge	.198*			
	Strategic Control	.205			
	Operational Control	.154	.307	.156	3.356**
	Interaction between "To Acquire Country Specific Knowledge" and Strategic Control	.556***			
	Interaction between "To Acquire Country Specific Knowledge" and Operational Control	−.395**			

*$p<.05$, **$p<.01$, ***$p<.001$

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To examine the interaction between strategic control and "Acquire Country Specific Knowledge", X_3 (operational control) was replaced by its mean 5.29. Thus:

$$Y_7 = 3.344 + .198X_{71} + .205X_2 + .556(X_{71}-5.03)(X_2-5.13)$$

High Level of Strategic Control	When $X_2 = \mu+\sigma$:	$Y_7 = 1.543 + .81X_{71}$
Shared Control	When $X_2 = \mu$:	$Y_7 = 4.396 + .198X_{71}$
Low Level of Strategic Control	When $X_2 = \mu-\sigma$:	$Y_7 = 7.248 - .414X_{71}$

Figure 5-11 Interaction between "To Acquire Country-Specific Knowledge" Objective and Strategic Control

"To Acquire Country-Specific Knowledge" Objective
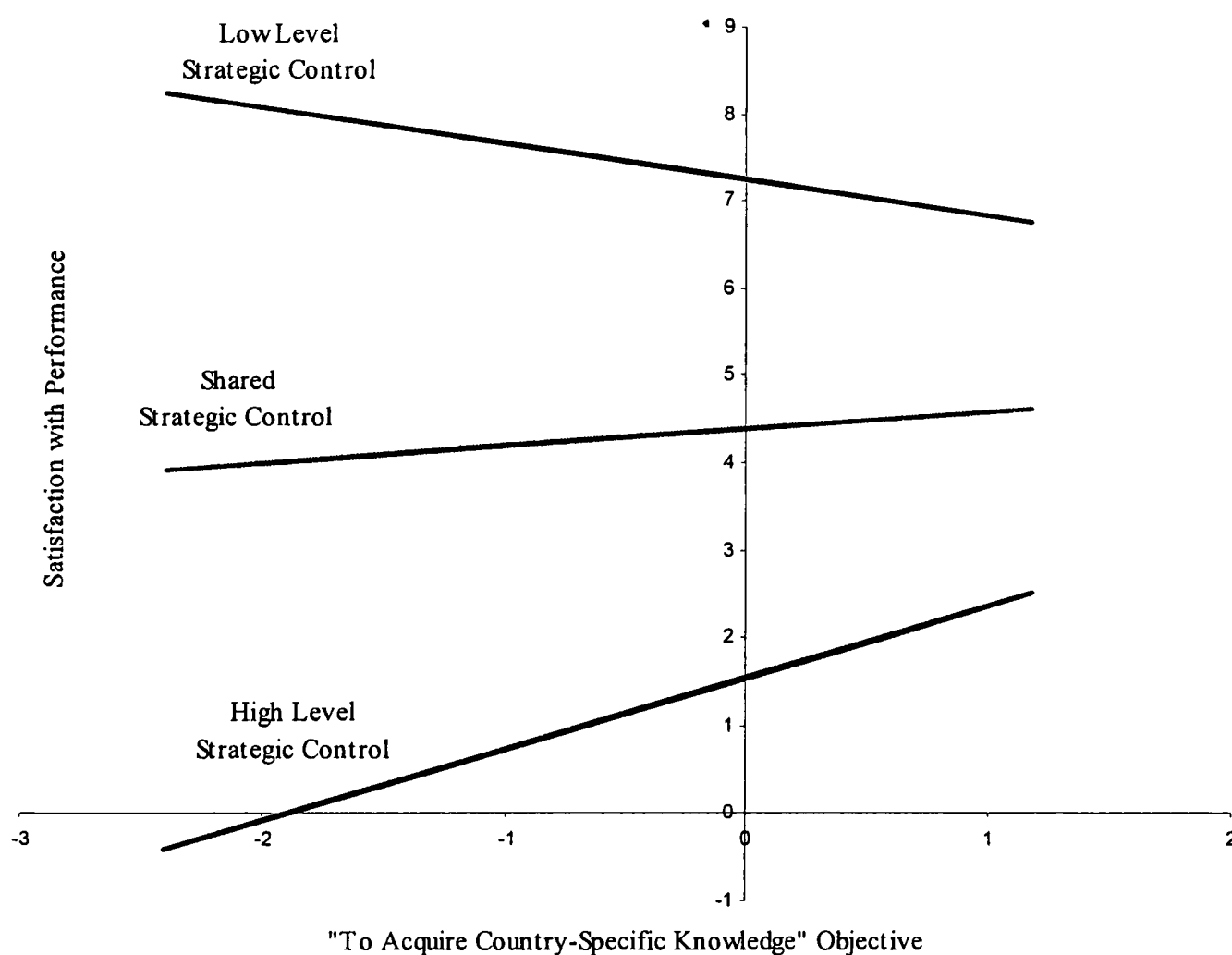
To examine the interaction between operational control and "Acquire Country Specific Knowledge", X_2 (strategic control) was replaced by the mean value 5.13. Hence:

$$Y_7 = 3.581 + .198X_{71} + .154X_3 - .395(X_{71}-5.03)(X_3-5.29)$$

High Level of Operational Control	When $X_3 = \mu+\sigma$:	$Y_7 = 7.349 - .347X_{71}$
Shared Control	When $X_3 = \mu$:	$Y_7 = 4.396 + .198X_{71}$
Low Level of Operational Control	When $X_3 = \mu-\sigma$	$Y_7 = 1.442 + .743X_{71}$

Figure 5-12 Interaction between "To Acquire Country-Specific Knowledge" Objective and Operational Control

"To Acquire Country-Specific Knowledge" Objective
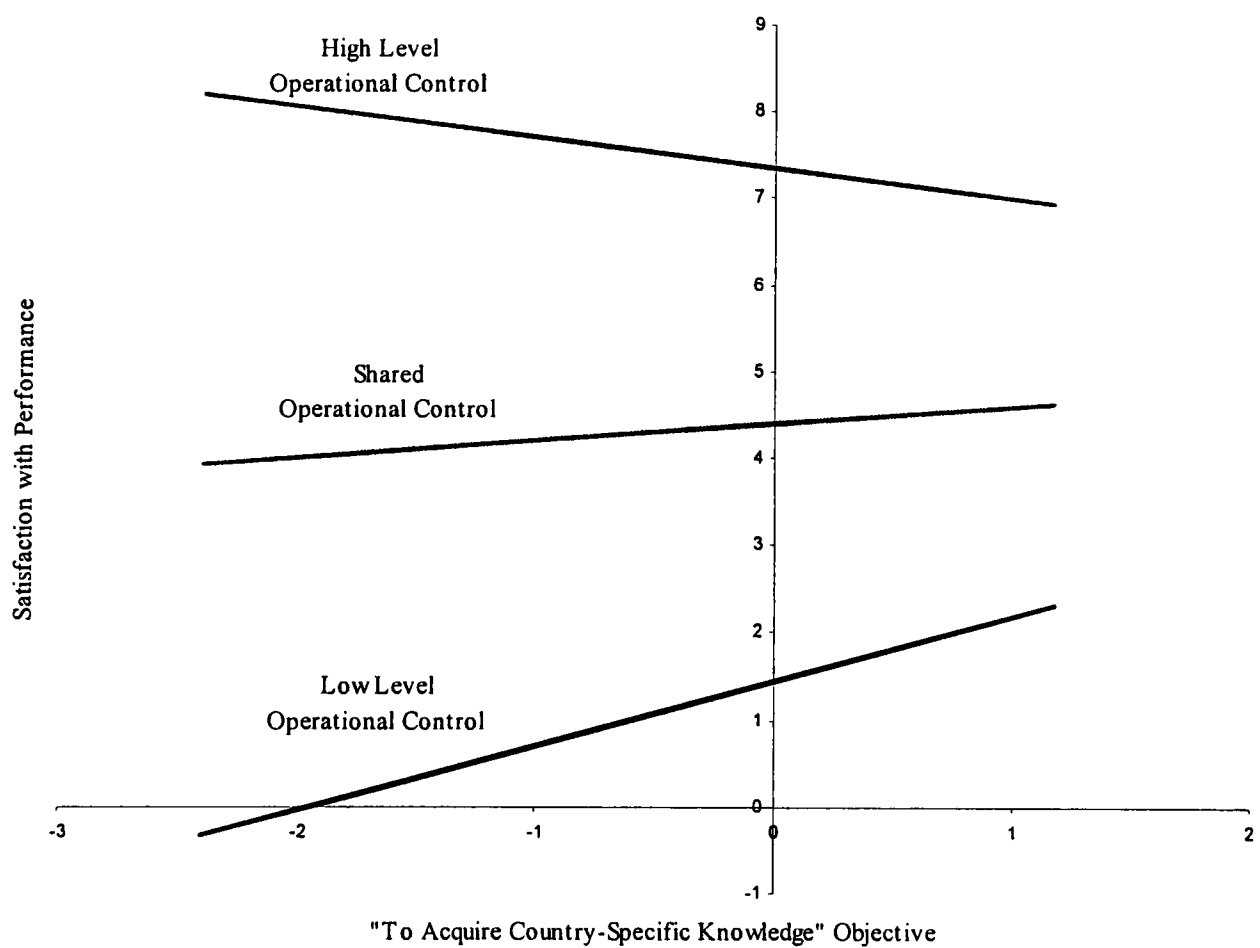
Coefficients of interaction with both strategic control (β=.556, p<.0001) and operational control (β=−.395, p<.0001) were highly significant. The results were consistent with the predicted direction of the relationships.

Figure 5.11 indicates that when strategic control is high, the relationship between acquiring country-specific knowledge and satisfaction with performance in relation to this objective is positively related. When strategic control is low, the relationship is negatively related. The results are consistent with the hypothesized moderating effect of strategic control. Therefore H7a is supported.

Figure 5.12 reveals that when operational control is high, the relationship between acquiring country-specific knowledge and satisfaction with performance in relation to this objective is negatively related, whereas operational control is low, the relationship is positively related. The results are in accordance with what was proposed. Hence, H7b is supported.

H8a and H8b

H8a: Strategic control that the foreign parent exercises over IJV will moderate the relationship between acquiring local marketing knowledge and satisfaction with performance in relation to this objective: when the strategic control is high acquiring local marketing knowledge and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, acquiring local marketing knowledge and satisfaction with performance in relation to this objective is negatively related.

H8b: Operational control that the foreign parent exercises over IJV will moderate the relationship between acquiring local marketing knowledge and satisfaction with performance in relation to this objective: when the operational control is high, acquiring local marketing knowledge and satisfaction with performance in relation to this objective is negatively related; when the operational control is low, acquiring local marketing knowledge and satisfaction with performance in relation to this objective is positively related.

H8a and h8b hypothesized moderating effects of parent control on objective "To Acquire Local Market Knowledge" and satisfaction with performance in relation to this objective. From Table 5.24, the hierarchical multiple regression equation is obtained:

$$Y_8 = 3.299 + .215X_{81} - .021X_2 + .200X_3 + .415(X_{81}-5.41)(X_2-5.13)$$
$$- .305(X_{81}-5.41)(X_3-5.29)$$

Where:

Y_8 = Satisfaction with "To Acquire Local Market Knowledge" Objective

X_{81} = To Acquire Local Market Knowledge

X_2 = Strategic Control

X_3 = Operational Control

$X_{81}X_2$ = Interaction between "To Acquire Local Market Knowledge" Objective and Strategic Control

$X_{81}X_3$ = Interaction between "To Acquire Local Market Knowledge" Objective and Operational Control

X_4 = IJV Age

X_5 = European partner total equity share holding in the IJV

Table 5.24 Hierarchical Regression of "To Acquire Local Market Knowledge", Strategic and Operational Control on Satisfaction with Objective Performance

| Model	Variables	Unstandardised Coefficients	R^2	ΔR^2	F
1	Constant	4.373			
	IJV Age	−.005			
	Held Share	−.011	.056		1.118*
	To Acquire Local Market Knowledge	.176			
2	Constant	4.241			
	IJV Age	−.002			
	Held Share	−.019			
	To Acquire Local Market Knowledge	.143	.122	.067	1.532*
	Strategic Control	−.257			
	Operational Control	.400			
3	Constant	3.304			
	IJV Age	.010			
	Held Share	−.015			
	To Acquire Local Market Knowledge	.215			
	Strategic Control	−.021			
	Operational Control	.200	.213	.090	2.043*
	Interaction between "To Acquire Local Market Knowledge" and Strategic Control	.415*			
	Interaction between "To Acquire Local Market Knowledge" and Operational Control	−.305*			

*$p<.05$, **$p<.01$, ***$p<.001$

To examine the interaction between strategic control and "To Acquire Local

Market Knowledge", X_3 (operational control) was replaced by the mean 5.29. Hence:

$$Y_8 = 4.362 + .215X_{81} - .021X_2 + .415(X_{81}-5.41)(X_2-5.13)$$

High Level of Strategic Control	When $X_2 = \mu + \sigma$:	$Y_8 = 1.759 + .672X_{81}$
Shared Control	When $X_2 = \mu$:	$Y_8 = 4.254 + .215X_{81}$
Low Level of Strategic Control	When $X_2 = \mu - \sigma$:	$Y_8 = 6.749 - .242X_{51}$

**Figure 5-13 Interaction between "To Acquire Local
Market Knowledge" Objective and Strategic Control**

"To Acquire Local Market Knowledge" Objective

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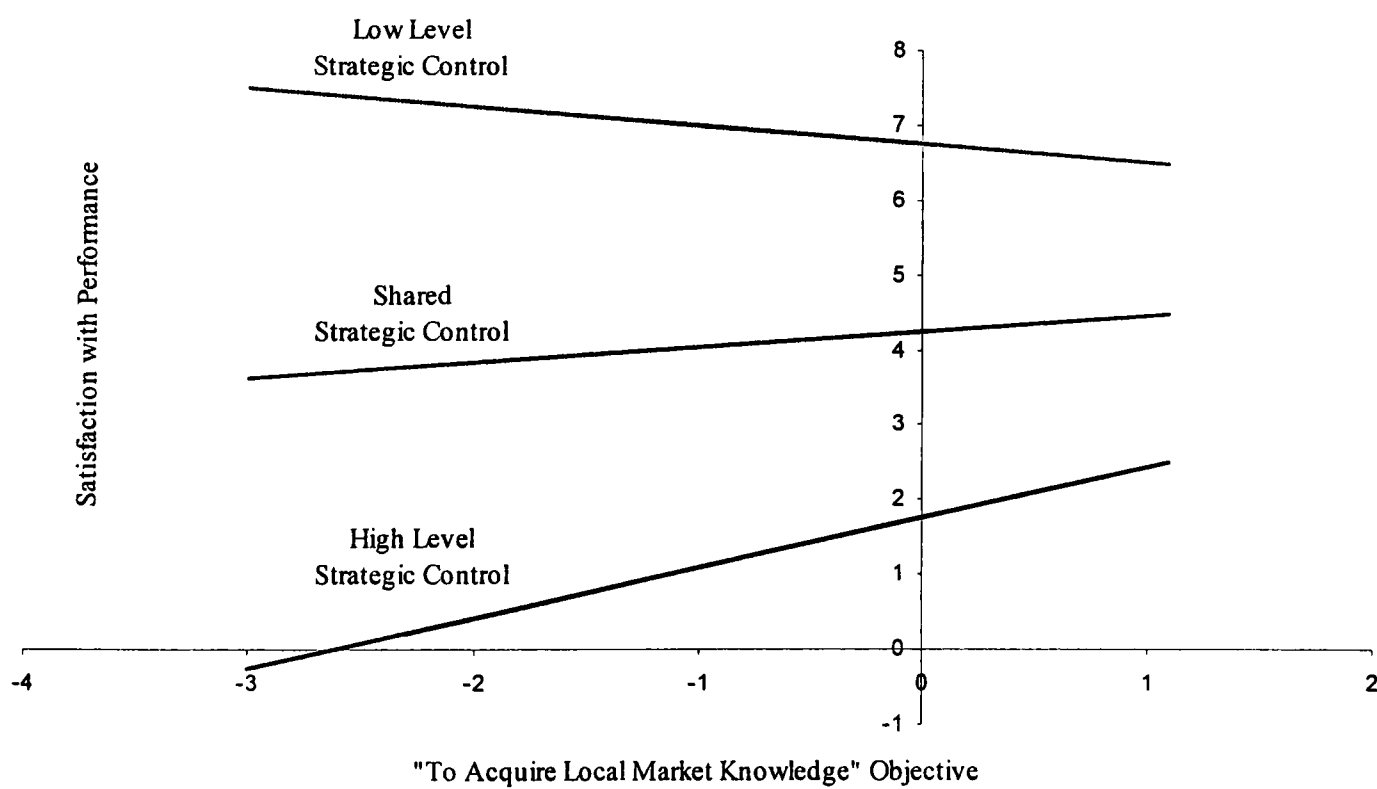
To examine the interaction between strategic control and "To Acquire Local Market Knowledge", X_2 (strategic control) was replaced by the variable mean 5.13. Hence:

$$Y_8 = 3.196 + .215X_{81} + .200X_3 - .305(X_{81}-5.41)(X_3-5.29)$$

High Level of Operational Control	When $X_3 = \mu + \sigma$:	$Y_8 = 6.808 - .206X_{81}$
Shared Control	When $X_3 = \mu$:	$Y_8 = 4.245 + .215X_{81}$
Low Level of Operational Control	When $X_3 = \mu - \sigma$	$Y_8 = 1.70 + .636X_{81}$

Figure 5-14 Interaction between "To Acquire Local Market Knowledge" Objective and Operational Control

"To Acquire Local Market Knowledge" Objective

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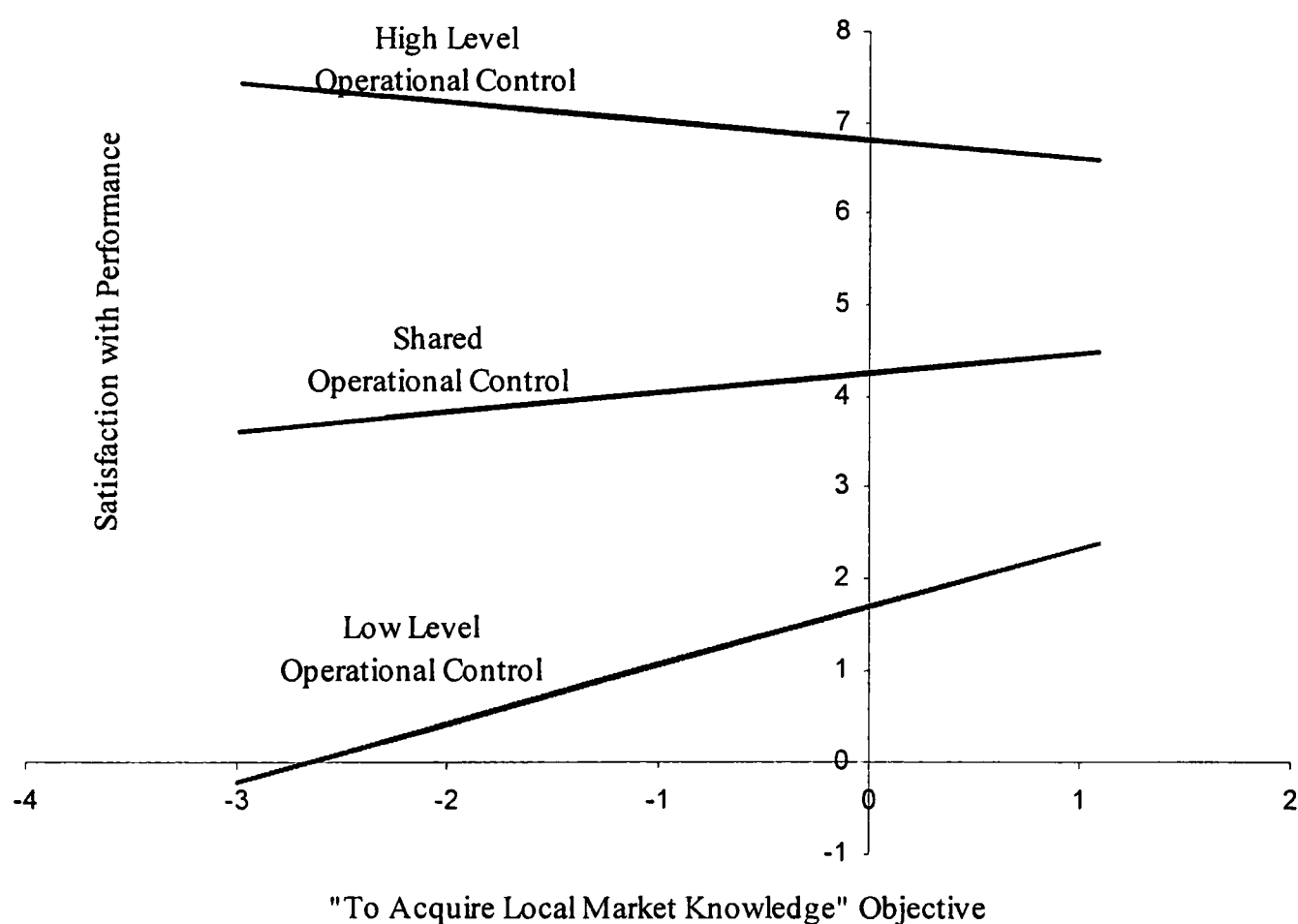
Coefficients of interaction with both strategic control (β=.415, p<.05) and operational control (β=−.305, p<.05) were highly significant. After further explored the moderating effects, Figure 5.13 shows consistency with the hypothesized moderating effect of strategic control. Therefore H8a is supported.

Figure 5.14 reveals that when operational control is high, the relationship between acquiring local market knowledge and satisfaction with performance in relation to this objective is negatively related, whereas operational control is low, the relationship is positively related. The results are in accordance with what was proposed. Hence, H8b is supported.

5.6. Conceptual framework testing

Structural equation modeling (SEM) was initially considered as an appropriate means for the testing of this study's conceptual framework, since it takes into account the modeling of interactions, nonlinearities, correlated independents, multiple latent independents which are each measured by multiple variables. Structural equation modeling is a family of statistics techniques which incorporates and integrates confirmatory factor analysis and path analysis. A model is tested using SEM goodness-of-fit tests to determine if the pattern of variances and covariances in the data is consistent with a structural model specified by the researcher (Kline, 1998).

In the SEM literature, one of the recommendations is that sample size should be at least eight times the number of variables in the model (Jaccard and Wan, 1996). Another recommendation, based on Stevens (1996) is to have at least fifteen cases per measured variable or indicator. There are a total of thirty-five variables in this study. However, total sample size is sixty-one. Therefore, SEM cannot be applied and is replaced by other approaches as indicated below to avoid statistical bias.

As a result of the inability to apply Structural Equation Modeling analysis to the data, a series of multiple regressions and path analysis were used to test the hypotheses.

5.6.1. Direct effects

Path analysis is a method employed to determine whether or not a multivariate set of non-experimental data fits well with a particular (a priori) causal model (Pedhazur,

1982). A path model is a diagram relating independent, intermediary and dependent variables. Path arrows indicate causation between exogenous or intermediary variables and the dependent variable(s) (Loehlin, 1991). A path coefficient is a standardised regression coefficient (Beta) showing the direct effect of an independent variable on a dependent variable in the path model. This analytical technique enabled the researcher to identify the relative magnitudes of the direct and indirect effects of the three research constructs: strategic objectives, parent control, and joint venture performance. The following regression equations were run in the path analysis:

$$\text{Performance} = b_0 + b_1 MD + b_2 ES + b_3 KA + b_4 SC + b_5 OC + e_1$$

$$\text{Strategic Control} = b_0 + b_1 MD + b_2 ES + b_3 KA + e_2$$

$$\text{Operational Control} = b_0 + b_1 MD + b_2 ES + b_3 KA + e_3$$

Where: MD = Market-Developing objectives,

ES = Efficiency-Seeking Objectives

KA = Knowledge-Acquiring Objectives

SC = Strategic Control

OC = Operational Control

The three categories of objectives are measured by aggregating the three factors that were generated from the confirmatory factor analysis in Section 5.4.2.2. Table 5.25 presents the results of multiple regressions for IJV Overall Performance and the goodness of fit index. The R square is 0.728, which means that the model explains 72.8% of the

variance in IJV overall performance. The F statistic for the model is 29.46, significant at the 0.001 level, which indicates that the overall framework is substantiated.

Table 5.25 Results of Multiple Regression Analysis for IJV Overall Performance

Dependent variable: overall IJV performance

Variables	Unstandardised Coefficients	Standardised Coefficients	R square	F-Statistics	p-value
Constant	-.442				
Market-Developing	.200*	.169*			
Efficiency-Seeking	.048	.047			
Knowledge-Acquiring	-.012	-.014	.728	29.458	.000
Strategic Control	.341*	.296*			
Operational Control	.519***	.567***			

*p<.05, **p<.01, ***p<.001

Table 5.26 and Table 5.27 report the results of multiple regressions for strategic control and operational control, respectively. The F statistics are all statistically significant (F=7.009, p<.001 and F=4.151, p<.005).

The regression equations are (all coefficients are standardised):

Performance = -.442 + .169MD + .047ES - .14KA + .296SC + .567OC

Strategic Control = 4.125 + .173MD - .357ES + .264KA

Operational Control = 4.760 + .063MD - .323ES + .237KA

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Table 5.26 Results of Multiple Regression Analysis for Strategic Control

Dependent variable: Strategic Control

Variables	Unstandardised Coefficients	Standardised Coefficients	R square	F-Statistics	p-value
Constant	4.125				
Market-Developing	.178	.173			
Efficiency-Seeking	-.316*	-.357*	.269	7.009	.000
Knowledge-Acquiring	.203*	.264*			

*p<.05, **p<.01, ***p<.001

Table 5.27 Results of Multiple Regression Analysis for Operational Control

Dependent variable: Operational Control

Variables	Unstandardised Coefficients	Standardised Coefficients	R square	F-Statistics	p-value
Constant	4.760				
Market-Developing	.081	.063			
Efficiency-Seeking	-.361*	-.323*	.179	4.151	.010
Knowledge-Acquiring	.230	.237			

*p<.05, **p<.01, ***p<.001

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5.6.2. Hypotheses Testing for H9 – H13

Figure 5-15 provided hypothesized relationships of H9 to H13. The standardised regression coefficients of the above equations represent the direct effects of the path coefficients (pc), which are presented in Figure 5.16. The path coefficients of Market-Developing objectives to strategic control and operational control are not significant (p>.05). The results suggest that Market-Developing objectives have no significant relationship with either strategic control or operational control. Thus H9a and H9b do not receive support. The relationships between Efficiency-Seeking objectives and strategic control (pc = -.357) and operational control (pc = -.323) are both significant (p<.01). However, the predicted sign for strategic control is positive, which is in contrast to the result. Therefore, H10a is not supported, but H10b is supported. Knowledge-Acquiring objectives have a positive relationship with strategic control (pc =.264, p<.05). However, the sign is opposite to what was expected. The relationship with operational control is not significant (p>.05). Thus, H11a and H11b are not supported.

Strategic control (pc = .341) and operational control (pc = .519) have significant and positive relationships (p<.01) with overall joint venture performance. Therefore, H12a and H12b are supported.

Of the predicted direct paths from the three categories of objectives to Overall IJV performance, only Market-Developing was found to be significant and positive (p<.05). Thus, H13a is supported. H13b and H13c are not supported.

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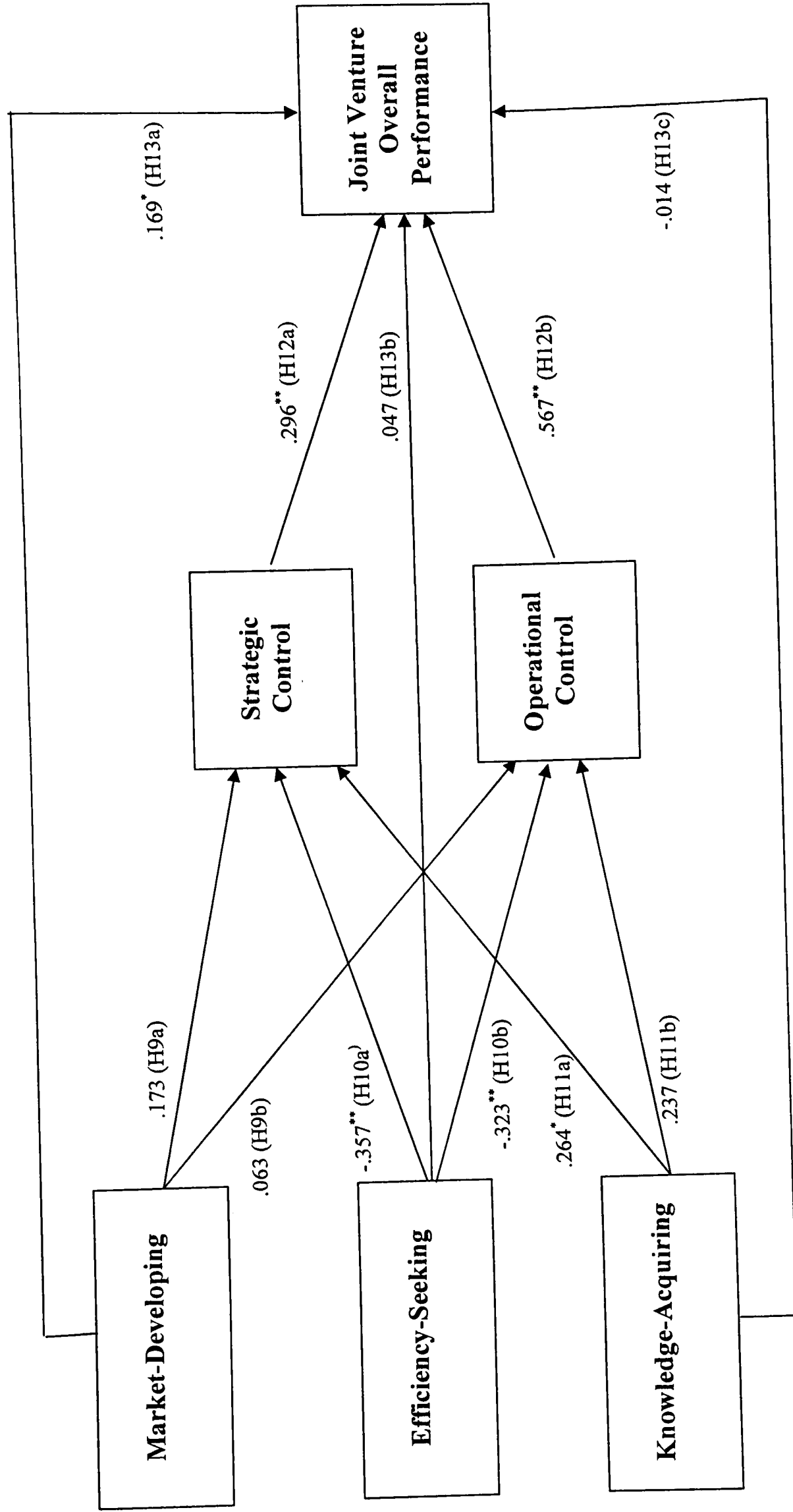
Figure 5-15 Path Analysis Results

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5.6.3.   Indirect effects

To examine further whether the three categories of objectives relate to Overall IJV performance, it is necessary to compute the relative strengths of direct and indirect paths between strategic objectives and IJV overall performance. First, the indirect effects of each category of objectives on Overall IJV performance are calculated by multiplying the coefficients of each relevant path and then summing them up (Cohen and Cohen, 1975). For example, the indirect effect of the Market-Developing category on Overall IJV performance through strategic control is calculated by multiplying the coefficients for the path between the Market-Developing category and strategic control and the path between strategic control and Overall IJV performance. A similar computation applies to operational control. The total indirect effect of the Market-Developing category on Overall IJV performance is calculated by summing up both paths. The equation is given below:

Indirect Effect$_{MD-PERF}$ = (Path$_{MD-SC}$ x Path$_{SC-PERF}$) + (Path$_{MD-OC}$ x Path$_{OC-PERF}$)

Where: MD = Market-Developing objectives

SC = Strategic control

OC = Operational control

PERF = Overall IJV performance

The results of the direct and indirect relationships between the three categories of objectives and Overall IJV performance are reported in Table 5.28. The total effects indicate that the relationship between the Market-Developing category of objectives and Overall IJV performance equals direct effect since both indirect effects via strategic

control and operational control are insignificant (p>.05). Although Efficiency-Seeking has no significant direct relationship with Overall IJV performance, the indirect relationships via strategic control and operational control are significant. This outcome reveals that foreign parent's efficiency-seeking objectives have an indirect impact on IJV performance. The learning objectives have an indirect relationship with IJV performance via strategic control. It however is quite weak.

Table 5.28 Direct and Indirect effects between categories of objectives and Overall IJV performance

	Direct Effect (DE)	Indirect effect		Total Effect TE = DE + IS + IO
		Path Via Strategic control (IS)	Path Via Operational control (IO)	
Market-Developing	.169*	NS	NS	.169
Efficiency-Seeking	NS	-.106*	-.183*	-.289
Knowledge-Acquiring	NS	.078*	NS	.078

p<.05; NS = Not Significant

5.7. Results of Performance between Categories of Objectives

Hypotheses testing for H14

H14a: Where satisfaction with strategic objectives is concerned, on average, Market-developing objectives outperform Efficiency-seeking objectives.

H14b: Where satisfaction with strategic objectives is concerned, on average, Market-developing objectives outperform knowledge-acquiring objectives.

H14c: Where satisfaction with strategic objectives is concerned, on average, Knowledge-acquiring objectives outperform efficiency-seeking objectives.

H14a, H14b, and H14c predicted that the three categories of objectives, market-developing-related, efficiency-seeking-related and knowledge-acquiring-related, would perform differently in terms of foreign parent satisfaction with strategic objectives achievement. To test these three hypotheses, the three categories of objectives were analysed by applying analysis of variance (ANOVA), which is reported in Table 5.29. The results indicate that there was a significant difference between objectives in relation to satisfaction with performance (F (2, 180) = 59.83, p<.05).

To further examine this difference, each category of objectives is compared to each of the remaining categories. Table 5.30 shows the results of Tukey's HSD. For each pair of categories the difference between group means and the significance level of that difference are displayed.

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When market-developing category is compared to the efficiency-seeking category, the difference is positive and significant (see Table 5.30). This means that the market-developing objectives outperform efficiency-seeking objectives. Therefore, H14a is supported.

When knowledge-acquiring category is compared with the efficiency-seeking category, the difference is positive and significant (see Table 5.30). This indicates that knowledge-acquiring objectives outperform efficiency-seeking objectives. In other words, H14b is supported.

However, when the market-developing category is compared with the knowledge-acquiring category (see Table 5.30), the difference is negative but not significant. Hence, H14c is not supported.

Table 5.29 ANOVA of Foreign Parent Satisfaction with performance for different Categories of objectives

Dependent Variable: Satisfaction with performance

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	187.027	2	93.513	59.83	.000
Within Groups	281.337	180	1.563		
Total	468.364	182			

***p<.001

Table 5.30 Post Hoc Tests (Tukey's HSD) Multiple Comparison Results

Dependent Variable: Satisfaction with performance

(I) Objective	(J) Objective	Mean Difference (I – J)	Sig.
Market-Developing Objective	Efficiency-Seeking Objectives	2.0459*	.000
	Knowledge-Acquiring Objectives	-.1852	.692
Efficiency-Seeking Objectives	Market-Developing Objective	-2.0459*	.000
	Knowledge-Acquiring Objectives	-2.2311*	.000
Knowledge-Acquiring Objectives	Market-Developing Objective	.1852	.692
	Efficiency-Seeking Objectives	2.2311*	.000

* The mean difference is significant at the .05 level

5.8. Results of Parent Satisfaction and Overall IJV Performance Hypotheses testing for H15

H15: Satisfaction with overall IJV performance is correlated with parent company satisfaction with performance in relation to objectives.

Satisfaction with performance in relation to objectives was measured by aggregating the twelve strategic objectives (Cronbach's Alpha = 0.7532). In Table 5.31, Pearson's correlation analysis indicates that there is a positive relationship between Satisfaction with Overall IJV performance and Satisfaction with performance in relation

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to objectives. But the relationship is not significant ($r = .241$, $p > .05$). Therefore H15 was not supported.

Table 5.31 Pearson's Correlations of Satisfaction with Overall IJV Performance and Aggregate Satisfaction with Objective Performance		
	1	2
Satisfaction with Overall IJV performance	1	
Aggregate Satisfaction with Objective Performance	.241 (p = .120)	1

5.9.   Summary of Results relating to Hypotheses

A summary of the results relating to the hypotheses is reported in Table 5.32 below.

	Table 5.32 Summary of Results Relating to Hypotheses	
	Hypotheses	**Result**
H1a	When the strategic control is high, fast market entry and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, fast market entry and satisfaction with performance in relation to this objective is negatively related.	**Partially Supported**
H1b	When the operational control is high, fast market entry objective and satisfaction with performance in relation to this objective is negatively related; when the operational control is low, fast market entry and satisfaction with performance in relation to this objective is positively related.	**Partially Supported**
H2a	When the strategic control is high managing competition and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, managing competition and satisfaction with performance in relation to this objective is negatively related.	**Not Supported**
H2b	When the operational control is high, managing competition objective and satisfaction with performance in relation to this objective is positively related; when the operational control is low, managing competition and satisfaction with performance in relation to this objective is negatively related.	**Not Supported**
H3a	When the strategic control is high overcoming government barriers and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, overcoming government barriers and satisfaction with performance in relation to this objective is negatively related.	**Supported**
H3b	When the operational control is high, overcoming government barriers objective and satisfaction with performance in relation to this objective is positively related; when the operational control is low, overcoming government barriers and satisfaction with	**Not Supported**

	performance in relation to this objective is negatively related.	
H4a	When the strategic control is high seeking global synergy and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, seeking global synergy and satisfaction with performance in relation to this objective is negatively related.	**Partially Supported**
H4b	When the operational control is high, seeking global synergy objective and satisfaction with performance in relation to this objective is positively related; when the operational control is low, seeking global synergy and satisfaction with performance in relation to this objective is negatively related.	**Not Supported**
H5a	When the strategic control is high spreading financial risk and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, spreading financial risk and satisfaction with performance in relation to this objective is negatively related.	**Partially Supported**
H5b	When the operational control is high, spreading financial risk objective and satisfaction with performance in relation to this objective is negatively related; when the operational control is low, spreading financial risk and satisfaction with performance in relation to this objective is positively related.	**Partially Supported**
H6a	When the strategic control is high avoiding political uncertainty and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, avoiding political uncertainty and satisfaction with performance in relation to this objective is negatively related.	**Not Supported**
H6b	When the operational control is high, avoiding political uncertainty objective and satisfaction with performance in relation to this objective is negatively related; when the operational control is low, avoiding political uncertainty and satisfaction with performance in relation to this objective is positively related.	**Not Supported**
H7a	When the strategic control is high acquiring country-specific knowledge and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, acquiring country-specific knowledge and satisfaction with performance in	**Supported**

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	relation to this objective is negatively related.	
H7b	When the operational control is high, acquiring country-specific knowledge objective and satisfaction with performance in relation to this objective is negatively related; when the operational control is low, acquiring country-specific knowledge and satisfaction with performance in relation to this objective is positively related.	Supported
H8a	When the strategic control is high acquiring local marketing knowledge and satisfaction with performance in relation to this objective is positively related; when the strategic control is low, acquiring local marketing knowledge and satisfaction with performance in relation to this objective is negatively related.	Supported
H8b	When the operational control is high, acquiring local marketing knowledge objective and satisfaction with performance in relation to this objective is negatively related; when the operational control is low, acquiring local marketing knowledge and satisfaction with performance in relation to this objective is positively related.	Supported
H9a	Foreign partner pursued market-developing objectives are positively related to strategic control.	Not Supported
H9b:	Foreign partner pursued market-developing objectives are positively related to operational control.	Not Supported
H10a	Foreign partner pursued efficiency-seeking objectives are positively related to strategic control.	Not Supported
H10b	Foreign partner pursued efficiency-seeking objectives negatively related to operational control.	Supported
H11a	Foreign partner pursued knowledge-acquiring objectives are positively related to strategic control.	Not Supported
H11b	Foreign partner pursued knowledge-acquiring objectives are negatively related to operational control.	Not Supported

H12a	The extent of strategic control exercised by the IJV foreign parent is positively related to the satisfaction with Overall IJV performance.	Supported
H12b	The extent of operational control exercised by the IJV foreign parent is positively related to the satisfaction with Overall IJV performance.	Supported
H13a	Foreign partner pursued market-developing objectives are positively related to the overall joint venture performance.	Supported
H13b	Foreign partner pursued efficiency-seeking objectives are negatively related to the overall joint venture performance.	Not Supported
H13c	Foreign partner pursued knowledge-acquiring objectives are negatively related to the overall joint venture performance.	Not Supported
H14a	Where satisfaction with strategic objectives is concerned, on average, Market-developing objectives outperform Efficiency-seeking objectives.	Supported
H14b	Where satisfaction with strategic objectives is concerned, on average, Knowledge-acquiring objectives outperform efficiency-seeking objectives.	Supported
H14c	Where satisfaction with strategic objectives is concerned, on average, Market-developing objectives outperform knowledge-acquiring objectives.	Not Supported
H15	Satisfaction with overall IJV performance is correlated with parent company satisfaction with performance in relation to objectives.	Not Supported

5.10. Chapter Summary

This chapter presents the empirical findings from the survey of 61 Sino-European IJVs. The dimensions of IJV strategic objectives and parent control were examined and verified. The moderating effects of control on different strategic objectives were tested. Twelve hypotheses were statistically supported, with a further four hypotheses receiving partial support. The proposed framework was examined. A strong relationship between parent control and IJV performance was found. Different categories of strategic objectives have either direct or indirect impacts on IJV performance. Market-developing objectives have a direct impact. Efficiency-seeking objectives have an indirect impact through strategic control and operational control. Knowledge-acquiring objectives have a weak indirect impact via strategic control. Different performance was found between categories of strategic objectives. Market-developing and knowledge-acquiring objectives outperform efficiency-seeking objectives. However, no significance was found between parent's satisfaction with strategic objectives and IJV overall performance.

The next chapter will conclude the research by reviewing the research objectives, discussing the research findings, providing theoretical and managerial implications, showing limitations of the study, and recommending directions for future study.

Chapter 6. Conclusions

6.1. Chapter Introduction

This chapter concludes the study. Section 6.2 briefly reviews the research questions and methodologies. Section 6.3 discusses the findings in relation to the research objectives and hypotheses. Section 6.4 and 6.5 discuss the implications for researchers as well as for managers. Section 6.6 and 6.7 address the limitations of the study and provide recommendations for future research, respectively.

6.2. Research Overview

This study focuses on international joint ventures, more specifically, on the strategic objectives, management control and performance aspects of IJVs. It investigates the relationships between these three theoretical constructs.

The central research objective of the study is to investigate the relationship between the strategic objectives, management control and performance of IJVs in developing countries using China as a focus for this research. The study has three specific objectives. To fulfill these three research objectives, six research questions were identified. The first three research questions attempt to fulfill research objective 1. The fourth research question addresses research objective 2, and research objective 3 is investigated by research questions 5 and 6.

Research objective 1: To improve understanding of IJVs characteristics in developing countries.

As an important strategy, international joint ventures have been increasingly used by MNEs. In coping with the intensified international competition and the challenges of globalisation of the world's economies, IJVs represent an effective approach to competing globally (Kogut, 1988b). Joint ventures between domestic companies in developing countries and foreign companies have become a popular means for both managements to satisfy their objectives. They offer an opportunity for each partner to benefit significantly from the comparative advantages of the other. Local partners bring knowledge of the domestic market; familiarity with government bureaucracies and regulations; understanding of local labour markets; and existing manufacturing facilities. Foreign partners can offer advanced process and product technologies, management know-how, and access to export markets. For each side, the possibility of joining with another company in the new venture lowers resource requirements relative to going it alone.

Since previous research on joint ventures has been conducted by using a variety of theoretical lenses and by focusing on a number of different dimensions, our understanding of joint venture strategic objectives has been fragmented. Drawing largely from market power, transaction costs, and organisational learning theories, a set of strategic objectives the foreign companies attempt to achieve through establishing joint ventures with local partners are identified, which were illustrated in detail in Chapter

Two. Market power theory largely explains IJV formation from a market development and benefits perspective (Child and Faulkner, 1998), whereas transaction costs theory underpins the efficiency seeking and costs saving perspective (Kogut, 1988). The organisational learning perspective (Kogut, 1988; Teece, 1986) posits that a firm seeks knowledge that it considers lacking but vital through IJVs for the fulfillment of its strategic objectives.

Since China entered the WTO, foreign companies have had more freedom to choose an entry mode. Wholly-owned enterprises (WOE) have been allowed since 1993. Regarding government FDI incentives, the differences between JVs and WOEs are becoming less and less. Under such circumstances, the reasons why foreign firms choose JVs as their strategic preference are worthy of research. Moreover, to what extent the foreign parents are satisfied with the performance of the IJV in relation to the objectives set is of importance. Therefore, the first and second research questions of this study were generated:

1)   *What are the strategic objectives of European MNEs for engaging in joint ventures in the People's Republic of China?*

2)   *To what extent has the performance of the joint venture met the foreign partners' expectations?*

A further research question is subsequently developed as research question 3:

3)   *Through establishing Sino-European IJVs, do any strategic objectives outperform others? In other words, is joint venture more suitable to achieve certain strategic objectives than others?*

Research objective 2: To theoretically explore and empirically examine strategic objectives of European MNEs when they establish joint ventures with Chinese firms, the content and focus of control they exercise over the joint ventures, and the performance which results.

Management control in an IJV is important because it determines the degree to which an organisation is able to achieve its objectives (Goold and Quinn, 1990). Without an appropriate control system in place it is highly unlikely that objectives will be achieved (Geringer and Frayne, 1990). Given its strategic importance, it is not surprising that the concept of IJV control has attracted the attention of scholars. However, a literature review in Chapter Two shows that there is a lack of consensus on the conceptualisation of IJV control. Many researchers (e.g. Beamish, 1993, Geringer, 1988) also found that when parent companies exercise management control over joint ventures, they tend to be selective rather than controlling the entire range of activities of the joint venture management. Research indicates that parents often prefer to emphasize control over long and short-term strategically important objectives (Geringer, 1993). However, it did not further explore the impacts of control on the attainment of different strategic objectives. Therefore, a fourth research question was developed:

4)   Regarding the specific strategic objective, to what extent does the control exercised by the foreign partner over a joint venture affect the attainment of the foreign parents' objectives?

Research objective 3: To examine the relationship between strategic objectives, IJV control and performance.

No existing research evidence shows links between partners' strategic objectives and IJV control. However, it is reasonable to believe that the objectives have considerable importance in relation to choices regarding the extent and focus of control. Some research has been directed at the questions related to what controls are and should be used in IJVs. Geringer and Hebert (1989) argue that the IJV managers receive little guidance about when and how to use control. Various studies investigating the relationship between control and IJV performance found conflicting results. For instance, Wang *et al* (1999) found that in Sino-foreign IJVs if the foreign parent was able to achieve dominant control they tended to be more satisfied with the IJV's overall performance. However, others found that shared control rather than dominant control is effective (e.g. Beamish, 1985, 1993; Yan and Gray, 1994). This apparent conflict becomes the fourth research question of this study. In addition, foreign partners' control over joint ventures is greatly influenced by their strategic intentions in developing countries. With respect to the theoretical issues of interest here, little research has been reported yet on the relationships between strategic objectives and performance in IJVs.

5)   To what extent do strategic objectives, parent control, and IJV overall performance relate to each other?

A sizable stream of research has focused on identifying factors conducive to superior IJV performance. However, considerable fragmentation and inconsistency in empirical findings has limited theory development and the advancement of management practice in this important field. There is substantial evidence reporting unsatisfactory IJV performance, in fact, Beamish and Delios (1997) reveal that an average of two in five IJVs are perpetual strugglers or outright failures. Thus, understanding IJV performance dynamics is vitally important to managers interested in developing and maintaining this type of international strategic partnership.

Given the problematic nature of IJVs it is crucial to decide how IJV performance should be measured. There are both objective and subjective measures of performance. Although many studies have found both measures were positively related and widely used, each has its own benefits and limitations. Due to the fact that the research questions in this study are subjective in nature, two subjective measures of IJV performance are adopted. One is the parent company's satisfaction with objective achievement and the other is the parent's assessment of IJV overall performance. As mentioned above, a positive correlation between objective and subjective performance measures has been found. However, the relationship between different subjective measures has been left unexplored. Therefore, the sixth research question is:

6)   Is there a relationship between parent companies' satisfaction with objective achievement and parents' assessment of IJV overall performance?

The data was collected using survey methodology. The questionnaire designed was pre-tested and modified before being sent to the respondents. The objective of this test was to confirm that the items were clearly understandable and unambiguous. The sample frame of Sino-European IJVs was identified from four sources: 1) European Chamber of Commerce in China, 2) British Chamber of Commerce in China, 3) French Chamber of Commerce and Industry in China, and 4) Delegation of German Industry and Commerce. The sample frame was restricted to manufacturing industries in order to minimise extraneous variation that might arise from differences between the service and manufacturing sectors. Beyond the limitation of industry, the sample selected also met the following criteria: (1) IJVs were based in Beijing, Yangtze Delta (around Shanghai), and Guangdong Province; (2) IJVs were two-party sponsored by for-profit organisations where the foreign partners have headquarters in UK, France, or Germany; 3) a cut-off point of 80% equity share was used; (4) IJVs had been in operation at least three years. (5) the research time frame was limited within four months.

A combination of internet survey and mail survey was chosen. Following the recommendations of the Total Design Method (Dillman, 1991), a systematic mailing procedure was used to maximise the response rate. The steps used were: a first e-mailing, two reminder e-mails, and finally a mail version posted to non-respondents.

6.3. Findings in Relation to research objectives and hypotheses

The findings relating to each objective are presented below.

Research objective 1: To improve understanding of IJVs characteristics in developing countries, with a specific focus on China

Research Question 1: What are the strategic objectives of European MNEs for engaging in joint ventures in the People's Republic of China?

The findings of this study challenge some assumptions about objectives of Western MNEs entering joint ventures in China. As an emerging market, China has a huge untapped territory. Early research suggested that the objectives of MNEs in establishing joint ventures in China were to take advantage of low labour costs, exploit natural resources, and benefit from favourable investment policies (Daniels *et al*, 1985, Wang, 1992; Kashlak, 1998). Using Sino-European IJVs as the research subject, however, this study found that these objectives are not the primary concerns of foreign partners. Rather, they aim at achieving longer-term objectives, such as market development and knowledge acquisition.

In this study, based on a synthesis of three theoretical streams of international joint venture research, market power, transaction costs, and organisational learning, a set of strategic objectives that foreign companies aim to achieve through joining with local partners were identified. The strategic objectives are the motivation driving foreign parents to enter joint ventures in China and control is one of the major means of assuring

objective attainment (Geringer and Hebert, 1991). This study offers a comprehensive examination of the strategic objectives of foreign parent companies, parent control, and performance in relation to those objectives. A number of important empirical findings come out of this study, which are meaningful for both academic researchers and practitioners and are further discussed below.

Strategic objectives were examined from the perspective of the foreign partner (European companies) in the formation of IJVs in China. The findings reveal that entering the Chinese market faster, acquiring local market knowledge, gaining more competitive advantages, acquiring knowledge of local economics, politics and culture, and overcoming governmental barriers rank as the top five strategic objectives for European firms establishing joint ventures in China. All these five objectives are either market-developing-related or knowledge-acquiring-related in nature.

This differs from the findings of Lin's (1997) study of Sino-Hong Kong joint ventures. In that study, the three most important goals for establishing joint ventures in China were: using cheaper production factors (labour, land, etc.), seeking favourable policies, and exploiting the Chinese market. Hence, the motives of Hong Kong companies were found to be more resource-oriented than those of European companies.

However, the findings of this study are somewhat similar to Glaister and Wang's (1993) findings on Sino-British joint ventures where the strategic motivations for joint venture formation were found to be: faster entry to market, to facilitate international expansion, to conform to host government policy, and to compete against common

competitors. Moreover, local market knowledge, knowledge of local culture, and distribution channels were also highly important.

In the case of Sino-American joint ventures, Daniels *et al* (1995) found that the major interests of American companies were overcoming governmental barriers, market entry, and avoiding political risk. Their findings are consistent with the results of this study except in relation to the consideration on political risk. This suggests that European companies have more confidence in the Chinese political environment than their American counterparts. However, it must be noted that the results of Daniels *et al*'s study were published in 1995, nine years before this study, and it is quite possible that the views of American JV managers might have changed in response to the changing Chinese environment over that time.

The similarity in the strategic objectives of the Western companies confirms the findings of Tremblay (1995). By tracking the profitability of 1066 foreign manufacturers registered in China, U.S. and European firms not only had a high rate of profitability, but these rates exceeded those of firms based in Taiwan or Hong Kong. Rheem (1996) also found that by 1993 more than half of the Western companies were profitable, compared to only one third of Hong Kong and Taiwan enterprises. They attribute the success of Western IJVs to putting great emphasis on the domestic Chinese market.

The results provide support for the findings of previous studies on Sino-Western IJVs. Foreign companies consider their market development vital. In addition, learning objectives are prioritised by foreign parents. China is an unfamiliar market for foreign

investors (Peng and Heath, 1996) and it is, therefore, understandable that MNEs emphasize the need to acquire knowledge of the Chinese culture and market.

Research Question 2: To what extent has the performance of the joint venture met the foreign partners' expectations?

The findings indicate that the objectives where respondents were most satisfied with performance matched the rank order of agreement with those objectives. This indicates that through joint venture with Chinese local partners, foreign companies can effectively achieve their strategic objectives. Of these objectives, they are highly satisfied with Market-developing-related objectives. Foreign MNEs are targeting the last huge market in the world. Effective entry is the major concern. Joint venture seems to be the most practical vehicle to realise their market development goals. This result is consistent with the findings of Isobe *et al* (2000).

In the efficiency-seeking category, the respondents were only satisfied with the objective of avoiding political risks and uncertainties. They are least satisfied with the objectives of spreading financial risk and exploring global synergies. Since China opened the door to foreign investment, it has treated capital resources as a first priority. For investment projects with large financial inputs, with which European MNEs are more likely to be involved, the Chinese state-owned enterprises often fail to provide the required share due to their own financial deficiency. Therefore, foreign companies have difficulties meeting the objective of spreading financial risk. The findings also show that MNEs have difficulties exploring global synergies with other subsidiaries through

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establishing joint venture in China. As a country long isolated from market-economics, the Chinese are still not familiar with international practices. Many governmental barriers are set up to protect national industries. These barriers hinder connection and cooperation between parent companies and their joint ventures. In addition, potential conflicts may occur because a company's global strategic plan may often be against the Chinese partner's interest (Ding, 1996). To explore such synergies, therefore, parent companies are more likely to establish wholly-owned subsidiaries to harmonise their global strategy. Joint ventures with local partners serve other strategic purposes, and may be coordinated by the wholly-owned subsidiaries.

The results also revealed that the Sino-European IJVs were generally satisfied with their success in achieving their learning objectives. Joint venture was proved to be an excellent learning vehicle. Acquiring country-specific and local market knowledge were considered very important by foreign parents. They were highly satisfied with performance in relation to the Country-specific knowledge acquiring objective, but less content with performance in relation to the local market knowledge acquiring objective. The best explanation here is that China is believed to be a difficult country to understand. It has unique characteristics which are quite different from other countries. Where marketing conditions are concerned, however, Western country markets are mature and tend to have more sophisticated systems. Distribution channels, for example, are widely available in Western markets. However, in China these were previously monopolised by state-owned wholesale enterprises. During the last two decades, the Chinese market has developed rapidly and distribution systems are now quite chaotic and undergoing fundamental changes. The Finnish company Nokia identified at least six different

distribution channels for its phones – with retail prices varying as much as 20% among them (Vanhonacker, 1997).

The findings in relation to the parent's strategic objectives suggest the need to modify and expand our understanding of joint venture formation. Current theoretical explanations of joint venture formation as a means to either enter a market, achieve efficiency, or for knowledge transfer appear to be too narrow to capture the complexity of parent companies' motivations to launch a joint venture. Although market power, transaction costs, and organisational learning are useful theoretical approaches in explaining joint venture formation, they may be inadequate, or may have been too narrowedly used to date, to explain joint venture creation in isolation. The findings indicate that the three theoretical streams are complementary rather than contradictory.

Research Question 3: Through establishing Sino-European IJVs, do any strategic objectives outperform others? In other words, is joint venture more suitable to achieve certain strategic objectives than others?

H14 predicted three comparative relationships between categories of objectives. Previous studies have examined the strategic objectives of entering an IJV (e.g. Calantone and Zhao, 2000; Child and Yan, 2001; Daniels *et al*, 1985), but the relative performance of various objectives has yet to be compared. The empirical results of this study indicate that both market-developing-related and knowledge-acquiring-related objectives have better performance than efficiency-seeking-related objectives. It can be inferred that European MNEs' market-developing and learning objectives for their joint

ventures with Chinese local partners are easier to satisfy. Low agreement and satisfaction with efficiency-seeking objectives also suggest that foreign partners are more market- and learning-oriented in Sino-European IJVs.

Research objective 2: To theoretically explore and empirically examine strategic objectives of European MNEs when they establish joint ventures with Chinese firms, the content and focus of control they exercise over the joint ventures, and the performance which results.

Research Question 4: Regarding the specific strategic objective, to what extent does the control exercised by the foreign partner over a joint venture affect the attainment of the foreign parents' objectives?

Undoubtedly, one of the most important empirical findings in this study is that parent control acts as a powerful moderator in the relationship between foreign companies' strategic objectives and satisfaction in relation to these objectives. What is even more interesting is that the moderating effects of parent control do not merely intensify or weaken the relationship between strategic objectives and satisfaction in relation to these objectives, but also parent control has different moderating effects in relation to different strategic objectives.

The first eight pairs of hypotheses were proposed in order to examine the moderating effect of parent control on the relation between strategic objectives and performance in relation to them. The findings provided strong empirical evidence that

parent control acts as a rather powerful moderator in the relationship between agreement and satisfaction with strategic objectives. However, there is no simple rule to follow as to how much control should be exerted over an IJV, as the findings show that control does not appear to have a universal direct effect on strategic objective attainment. Moreover, the distinction between strategic control and operational control in this study has been helpful in specifying the differentiated effects of these two variables on management control.

H1 to H3 related to market-developing strategic objectives. H1a, H2a, and H3a predicted that a high level of strategic control has a positive moderating effect on objectives and satisfaction with these objectives performance. H1a, which predicted a moderating effect between objective "To Enter the Chinese market Fast" and performance in relation to this objective, received partial support. MNEs entering a foreign market indeed require great control of strategic decisions to assure their long term strategy in Chinese market development. This finding is consistent with Tallman and Shenkar's (1994) findings. However, strong local partner competitive advantages can also help foreign firms enter market quickly. This might also lead foreign firms to exercise a low level of strategic control over the joint venture.

H2a failed to receive support from the results. One interpretation is that, in order to obtain assistance from the Chinese partners to manage competition, foreign parents have to relinquish some elements of strategic control, such as use of profit, allocating senior management positions, or choosing location of IJV facilities. When foreign partners have long-term market development in mind, a compromise over financial benefits in the short term can be easily understood. Foreign companies entering China are

sometimes willing to sustain losses for growth; more typically, they desire to reinvest their profits for further expansion, while most Chinese companies seek profits on a much shorter time horizon (Child and Yan, 1999). Successfully deterring competitive market entry largely depends on whether and how much the foreign companies obtain the Chinese partners' cooperation. Through shared control, the Chinese would be as motivated to make the joint venture work as foreign companies. In this regard, ceding some strategic level decisions seems more appropriate. However, where overcoming governmental barriers is concerned, a high level of strategic control was found to have a highly significant moderation effect on the relationship. This shows that IJV strategic decisions are firmly controlled by foreign partners when they established a joint venture with a local partner in order to overcome governmental barriers and enter the market.

On the other hand, operational control in relation to market-developing-related objectives must be used with caution. For the faster market entry objective, both high and low levels of operational control have a positive moderating effect. This is possibly because fast market entry needs more active action so that foreign parents can enter the market quicker. However, in the case of managing competition and overcoming governmental barriers, the hypotheses did not receive support. Managing competition needs close cooperation from local partners. Similarly, more delegation to IJV managers is desirable when the objective is overcoming various governmental barriers. It seems that achieving the objective of overcoming governmental barriers needs local partners to play a more active role in IJV operation in order to comply with diverse government requirements and bureaucracy.

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H4 to H6 dealt with efficiency-seeking strategic objectives. H4a, which predicted strategic control positively moderated seeking global synergy and satisfaction with this objective, was partially supported. IJVs are increasingly perceived as important elements of an MNE's global business network (Griffith *et al*, 1998). Consistency with global strategy requires a high level of strategic control to assure implementation in the Chinese market. When an MNE pursues a global strategy, it is critical that company-wide activities are coordinated centrally, and such central coordination can be achieved only with full control of local subsidiaries (Kim and Hwang, 1992). H4b failed to achieve statistical significance. Hence, operational control has no moderating effect on foreign parent's global synergy seeking objective. Indeed, as long as the IJV accords with parent company's global strategy, it should be given autonomy at operational governance (Newburry and Zeria, 1999).

The results partially supported H5a and H5b as both high and low level strategic and operational control was found to have a positive moderating effect. Moreover, high level strategic control had a stronger positive effect than low level strategic control, whereas low level operational control had a stronger positive effect than high level operational control. The probable explanation for this is that European investors generally undertake large scale investment, where only state-owned enterprises are available as partners (Zhang and Keith, 1999). Normally, the Chinese representatives had a government background (Osland, 1994). They have to assure the stability of the IJV and its operation continuously since the failure of large size IJVs is perceived as "losing face" (Yang and Lee, 2002). It also can be said that, if foreign parents join with a local Chinese

partner to spread financial risks, no matter what the extent of control exercised by foreign parents, the result will be satisfactory.

H6a and H6b failed to achieve statistical significance. Hence, they cannot be supported. It can be said that neither strategic control nor operational control has a moderating effect on avoiding political uncertainty objective and satisfaction with performance in relation to this objective. The results suggest that attainment of foreign parents' objective to avoid political uncertainty cannot be guaranteed by exercising management control. It needs MNEs to take other factors into consideration. For example, Daniels *et al* (1985) argue that an important tool of political risk management is insurance. Small initial investment or keeping IJV physical assets mobile can reduce such risks. Merchant (2000) contends the local partner selection is essential since these important local resources providers can minimise the institutional risks of economic activities in developing countries.

H7 and H8 related to knowledge-acquiring objectives. As was expected, high level strategic control or low level operational control can significantly improve the learning objectives. Hamel *et al* (1989) argue that irrespective of learning capability, partners will not learn unless they are motivated and make a conscious effort. Foreign parent control exercised at the strategic level can establish strategic priorities that are consistent with learning goals which will lead to greater success in the long term. As for day-to-day operations, however, delegating the operational decisions to Chinese managers will enhance learning efficiency, as foreign managers accumulate knowledge and know-how of the Chinese culture and markets by learning-by-doing with their Chinese colleagues.

Research objective 3: To examine the relationship between strategic objectives, IJV control and performance.

Research Question 5: To what extent do strategic objectives, parent control, and IJV overall performance relate to each other?

The proposed relationships between the parent control variables and foreign parent satisfaction with IJV overall performance received full support. Hypothesis H12a regarding the relationship of strategic control with performance was found to be significant and highly correlated, suggesting that the strategic level decisions have a great impact on the performance of the joint venture. Hypothesis H12b is also supported by a highly correlated relationship between operational control and performance. This indicates that control over the day-to-day operations of the IJV affects the pattern of performance. In other words, how the operational control is managed directly and positively impacts the pattern of the partner's satisfaction with IJV overall performance. The results are consistent with those of Killing (1983), Mjoen and Tallman (1997) and Ding (1997).

This study provided strong empirical evidence for the notion that dominant control will lead to better IJV performance. The more control foreign parents had over the IJVs, the more satisfactorily the IJVs performed. This finding sheds light on the inconsistent and often contradictory results of previous studies on the relationship between parent control and IJV performance. As demonstrated in the literature review, there are two different arguments in relation to superior IJV performance: dominant control, as posited by Ding (1997), Killing (1983), Lecraw (1984), Mjoen and Tallman

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(1997), or shared control, (e.g. Beamish, 1985, 1985). In Killing's (1983) findings, the best performers were those highly controlled by foreign partners as if they were wholly-owned subsidiaries. The results of this study are in line with the dominant control argument. However, it is necessary to point out that whereas Killing (1993) measured parent satisfaction, Beamish (1985) studied IJV management's assessment to evaluate joint venture performance. However, Yan and Gray (1994) found that joint venture management had difficulty providing independent performance assessment because senior joint venture management did not represent the partnership per se, rather they were the agent of their parent company.

This study argues that the measure of IJV performance should be dependent on the nature of research and research questions. For example, this research attempts to give insights into the achievement of strategic objectives from the European MNEs' perspective. The nature of the research here determines that joint venture performance should be measured from the foreign parents' point of view and the attainment of objectives is a reasonable measure for this.

The proposed theoretical framework received mixed support from the empirical findings. At the overall level, the tentative relationships between the partners' strategic objectives and IJV overall performance are partially substantiated. As revealed from the path analysis in Chapter Five, only the market-developing category has a direct relationship with IJV overall performance. The findings indicate that foreign companies motivated by market development are more likely to have a satisfactory IJV performance. No statistically significant direct relationship was found between efficiency-seeking objectives and IJV overall performance. However, there is a strong indirect relationship

between efficiency-seeking objectives and IJV overall performance via different levels of management control. Hence, the moderating effects of management control on the linkage between strategic objectives and IJV overall performance are demonstrated. Although efficiency-related objectives do not have direct impact on IJV performance, they have indirect effect through management control. Knowledge-acquiring objectives have no direct but have a weak indirect impact through strategic control on IJV performance.

Research Question 6: Is there a relationship between parent companies' satisfaction with objective achievement and parents' assessment of IJV overall performance?

The hypothesized correlation between overall satisfaction with strategic objectives and IJV performance was not supported. The results reflect a general fact that when companies enter a foreign market with a certain level of resource commitment, the joint venture, as one of many entry modes, serves diverse objectives that the companies aim to attain. The IJV must comply with parents' objectives. Once the goals are achieved, this contractual relationship can continue, or be terminated. When the IJV is being operated in accordance with parent's interest, the hypothesized correlation can exist, i.e. satisfaction with overall IJV performance is correlated with parent company satisfaction with performance in relation to specific objectives. Otherwise, the good performance of the joint venture per se is not necessarily satisfactory for the parent company. For example, an MNE generally wishes to minimise its worldwide tax burden. This objective

can dramatically affect its relations with a joint venture, especially when the latter either imports parts and components from the MNE or exports product through the MNE parent. The MNE may manipulate transfer prices – that is, the prices charged by one part of the MNE when transferring them to another part – to lower its taxes, a strategy that is not necessarily in the interests of the IJV and the local partners. The joint venture is sometimes even charged a premium price on import parts and required to sell export product at a discount price, which benefits the MNE but hurts the profitability of the joint venture. This opportunistic behaviour would damage the trust and cooperation of local partners, and would be eventually likely to lead to an unsatisfactory joint venture performance.

6.4. Contribution to Theory

First, the theoretical underpinning of this research largely draws from market power, transaction costs, and organisational learning theories. The findings reveal the strategic objectives of European companies when establishing joint ventures with Chinese partners. Prior research has examined IJV from a single theoretical perspective. Market power theory has been used to depict market entry and improvement of competitive position vis-à-vis rivals (Terpstra and Sarathy, 1994). Transaction costs theory has been used to argue that joint ventures are formed as a means to bypass inefficient markets for intermediate inputs, i.e., a way to keep costs down (Hennart, 1988). The concept of organisational learning has been used to suggest that joint ventures are primarily formed to transfer knowledge (Kogut, 1988).

However, Dunning's (1988, 1990) eclectic theory developed theoretical propositions from a variety of theories, thus providing a more robust theoretical paradigm to explain foreign direct investment. This study integrates the three major theoretical streams in the IJV field to investigate the rationale for the formation of international joint ventures. As such, it offers more comprehensive explanatory power and demonstrates the importance of using integrated theoretical streams to investigate research problems. Through the use of multiple theories a better understanding of partner objectives in forming an IJV has been gained. Future research might use a similar approach to explain the complex nature of research questions.

Second, two dimensions of IJV control were empirically examined and substantiated in this study. The extent and focus of parent control over IJV is a dilemma for both researchers and managers. Child (1984) argued that the distinction between strategic control and operational control is necessary because of the differing behaviour observed by joint venture researchers in relation to each. Verification of the distinction is beneficial for further IJV control studies as well as foreign managers. MNE parents cannot achieve their strategic objectives, by simply sharing control as much as possible with local partners or by simply exercising control as much as possible. The results show that the amount of control either exercised over IJV or shared with local partners depends on the individual strategic objectives. In other words, what is wanted determines what should be done. Differentiating strategic and operational control is essential for attaining parent objectives.

The moderating effects of management control enrich the literature by providing a theoretical linkage between strategic objectives and the attainment of these objectives.

The results of this study show that this perspective is empirically sound and powerful. With respect to the relationship between parent control and IJV performance, an essential but controversial topic in the IJV literature, this research is theoretically critical. Although most IJV researchers believe an influential relationship between control and performance exists, efforts to theoretically explain the linkage have been lacking. This study offers such an explanation. Strategic objectives determine the magnitude and extent of control exercised over IJVs, which in turn influence the achievement of strategic objectives. The strong empirical evidence confirms the significant moderating effects of parent control on attainment of strategic objectives. It therefore provides a foundation for further examination of moderating effects between foreign parent control and IJV performance.

Third, IJV performance measurement has long yielded inconclusive results and become a controversial issue in the literature. There is no consensus on the most appropriate criteria for the evaluation of success, even if some of them are more widely used than others. Certainly, none is perfectly adequate, since each of them reflects one aspect of performance, which requires a better understanding of the links between its different dimensions. Whereas the correlation between objective and subjective measures has been empirically tested, little is known about the links between the various criteria used within each category. The present study suggests that IJV performance measures must comply with the diverse IJV strategic objectives. As a result, this research measures IJV performance from two perspectives. One is objective-specific performance measurement. The other is IJV overall performance. Hatfield *et al* (1998) found that partner assessment of joint venture goal achievement is positively and significantly

related to joint venture survival over time. However, this study found no significant relationship between the assessment of joint venture goal achievement and IJV overall performance. Strategic objectives generally take a longer time to be attained, which may lead to a long duration of the IJV. However, longevity should not necessarily be equated with good performance.

A fourth contribution is related to research methodology. Traditional mail questionnaires were heavily used in previous studies on international joint ventures. Internet access has been steadily increasing with the result that more people have access to the Web. This has introduced a new methodology for survey data collection which, in internet surveys, can increase speed of response and greatly reduce costs. Craig and Douglas (2001) advise that international marketing researchers need to broaden their capabilities in order to design, implement and interpret research in the twenty-first century. Research in international joint ventures is often associated with financial problems because of geographical constraints. This study concentrated initially on a web-based survey, using a mail survey to increase response rate as needed. The majority of respondents (87%) completed the questionnaire online. This provides excellent evidence for researchers to make use of web-based surveys in future international marketing studies.

Finally, one important implication of this study is associated with the research subject. Due to the proliferation of international joint ventures in China in recent years and the unique characteristics of the country's political, economic, social and cultural systems, joint ventures in China have been said to deserve special attention (Child, 1991). Sino-European joint ventures were chosen as the unit of analysis here, as they represent

one of the fastest growing areas of joint venture investment worldwide. This research thus contributes to the literature on the Chinese experience.

6.5.   Managerial Implications

Choosing the mode of entering a foreign market is a very important strategic decision and has a crucial impact on the competitive advantage of multinational companies (Contractor and Lorange, 1988). Differentiating effects of different entry modes could influence a foreign investor's ability to achieve control over local ventures, monitor overseas operations, reduce operational risks, and eventually, fulfill strategic objectives.

This research provides some new and interesting insights for improving joint venture management. While many managers have ambiguous and controversial perceptions of IJVs, which are described as "Trojan Horses" or "Workhorses" (Hennart *et al*, 1999), this study provides insights for managers in assessing their strategic objectives, designing of control systems, and evaluating subsequent IJV performance. The managerial implications are discussed below.

First, instead of isolating the relationship between parent control and joint venture performance, the moderating effects of control on strategic objectives and satisfaction with attainment of objective were investigated. Parent companies cannot dominate everything in IJV as control is not free. However, failing to exert any control over joint ventures would ultimately lead to a failure to meet the expectations. The extent and focus

of control becomes a major concern. Guidance is offered as to how to effectively link strategic objectives with a management control system.

The findings of this study suggest that parent companies should formulate different control structures according to different strategic objectives. If companies have multiple objectives, which in fact is often true in reality, then they should prioritise the strategic objectives and set up a control structure accordingly. When priority objectives are changed, the control structure should also be changed since IJV control must be handled precisely.

For example, a company might bear both market entry and local market knowledge learning objectives in mind simultaneously. It might prioritise the market entry objective at the early stage of the joint venture. Based on the findings of this study, the foreign parent should seize strategic and operational control so that the market entry objective can be effectively achieved. After successfully entering the market, learning becomes the priority for the parent company. The control structure can be altered as desired, i.e. the foreign company still holds the dominant position on strategic decisions, but encourages the local partner to increase its involvement in IJV day-to-day operations.

Second, and rather interestingly, one managerial implication of this research is that different categories of objectives perform differently in joint ventures. Companies often have various strategic objectives when entering into a joint venture. Some can be more efficiently achieved than others because of the joint venture setting. The findings of this study suggest that in joint ventures with Chinese partners, European MNEs achieve better in relation to market development and knowledge acquisition than they do when

seeking organisational efficiency. This finding may serve as a practical guide to managers when they choose an international market entry mode in China.

Third, this study found that partners' most important goals tend to be market development and knowledge acquisition. Thus, to adequately assess their joint venture's performance, executives will need to extend their performance assessment beyond the traditional financial measures of profitability and return on investment. Partner objective achievement offers an enriched means of measuring joint venture performance.

6.6. Limitations of the study and Recommendations for future research

As with all research, there are a number of limitations to this study. Firstly, the issue of single versus multiple respondents needs to be considered. One of the basic issues in IJV performance evaluation is the question of whose performance to assess. Parents have their own objectives in creating IJVs, and obviously to measure a venture's performance against these objectives is relevant. But it is not the only basis for measuring results. Anderson (1997) argues that IJVs should be measured primarily as stand alone entities seeking to maximise their own performance, not the performance of parents. Further, encouraging the IJV to stand alone promotes harmony among the partners and increases the chance of survival and prosperity (Geringer and Hebert, 1991). Other researchers argue that using only the IJV entity to assess IJV performance represents an incomplete method for assessing performance (Yan and Gray, 1994). Data in this study was collected from foreign senior management within joint ventures who, thus, represent the views of foreign partners. However, Geringer and Hebert (1991) found there was no

difference if one uses the evaluation of IJV performance from 1) one partner, 2) both partners, or 3) IJV management. Nevertheless, since IJVs are jointly owned, future studies might examine whether both parties are satisfied with performance.

A second issue concerns the generalisability of the findings. A single IJV host country, China, was chosen. This inevitably raises the question of whether the findings from this study can be generalised to IJVs in other emerging markets. A replication study of IJV in other developing countries would be helpful to examine the generalisability. The study also focuses on the manufacturing sector. Given the increasing number of IJVs from the service sector (Contractor and Kundu, 1998), an attempt to compare the findings of this study to IJVs in the service sector would be an interesting topic for future research.

In this study, only IJVs located in Beijing, Yangtze Delta (around Shanghai) and Guangdong Province are considered as they contain the majority of joint ventures and therefore assure a certain level of representativeness of IJV activity in China. However, the recent trend for foreign direct investment in China is that joint ventures are gradually extending to other coastal and inland areas as a result of the fact that FDI in central and northwest regions is highly encouraged by the Chinese government (Lai, 2002). Therefore, it will be interesting to include other emerging regions in future Sino-foreign IJV studies.

Although consistent with previous research into IJVs (e.g. Ding, 1997, Child and Yan, 2001), the sample of sixty-one joint ventures is relatively small. A larger sample size would considerably enhance statistical power (Cohen and Cohen, 1975). Given the complicated interactions between variables in the proposed framework and the weakness

of some multiple measures, structural equation modeling could have helped improve the results of the study because of its ability to handle measurement and structural models simultaneously, and its ability to handle causal relationships between dependent variables. Unfortunately, such methods could not be used owing to the small sample size. This may be a major reason for the lack of significance in certain proposed relationships. However, it has been recognised that obtaining data (Kogut, 1988) and even locating IJVs is often one of the biggest problems in research of this nature. Access to published data sources is rare and extremely expensive. Nevertheless, future research with a bigger sample size might allow sounder conclusions to be generated.

Two other issues relating to the collection of IJVs for study are also of interest. Firstly, since there is no consensus on what percentage of foreign ownership is required to clarify FDI as an IJV, any cut-off may be arbitrary and consequently generate bias. Makino and Beamish (1998) applied conventional Western accounting principles to distinguish joint ventures and portfolio investment. Although their 20/80 cut-off is employed in this study, future research may investigate whether any difference exist if other cut-off points are used. Secondly, British, French, and German investors in IJVs are investigated in this study. The rationale is that they are the three biggest European investors in China. However, other European nations, such as Scandinavian countries, Italy, and Netherlands, are actively participating in the Chinese market, and future study should be extended to include these countries. Moreover, the cultural literature (e.g. Hofstede, 1984) suggests that the UK, France, and Germany may have different organisational, structural, and managerial processes, as well as national culture. These characteristics may significantly influence their decisions relating to establishing and

managing IJVs in China. Consequently, different IJV performance may be expected. The impact of these differences on international joint ventures has not been considered here and should be examined in future research.

Future research may also look at the role of the control mechanism on IJV strategic objective achievement in greater detail. IJV management control is multidimensional (Geringer and Hebert, 1988). This study investigates the extent and focus of two dimensions of control. The findings also suggested that equity ownership may have an impact on the level of parent control (see section 5.4.3.1). It would be interesting to examine the moderating effects of various control mechanisms in enhancing parent's satisfaction with objective achievement.

Finally, scholars are increasingly acknowledging that use of management control may depend upon the particular phase in the IJV life cycle (e.g. Jap and Ganesan, 2000). It may be that for certain strategic objectives, dominant control is more useful in the early stages of the IJV than in later stages. Future research may be to follow-up this study in a few years time to see if the IJVs are still in existence and if so, to examine both how they exercise their management control and their current performance.

In conclusion, it is only through further refinements of and extensions to this research that it may be possible to gain a sufficient and comprehensive understanding of the complex issues inherent in IJV management. Nevertheless, this study has made a new contribution to our understanding in the field.

Appendix 1 Survey Cover Letter

Dear Sir/Madam,

I am a doctoral researcher at the University of Salford, Manchester, UK, and am presently conducting research with European multinational corporations that have joint ventures in the People's Republic of China.

I have obtained your name from British Chamber of Commerce in China, and would like you to participate in this study as someone who is particularly knowledgeable in the area of my research. Only a small amount of time will be needed to answer a few questions. Any information that you provide will be treated as strictly confidential. In particular, information that may be sensitive or firm-identifying will not be presented, published, or otherwise divulged.

As soon as the results are analysed, I will provide you with a summary report of findings, which I hope may be beneficial to you in managing your existing and future joint ventures. If you have any questions, please do not hesitate to contact me.

Now, please click the link below. It will lead you to the questionnaire which is on our university's website. When you complete the questionnaire, please press the 'Send' button. It will automatically send your questionnaire to me. Thank you.

<u>www.som.salford.ac.uk/HY/</u>

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Appendix 2 Survey Questionnaire

A Survey of Sino-European Joint Ventures

This questionnaire is designed for easy completion. It should only take a few minutes to complete. Your cooperation is appreciated.

1.   Background Information

Name of joint venture (JV): _____

Geographical location: _____

Year of establishment: _____

European partner: _____

Location of headquarters: _____

Chinese partner: _____

Total original investment:

☐ Less than $1million ☐ $1 -10 Million ☐ $ 10 -15 Million ☐ Over $50 million

Share of equity held by European partner in the JV: _____ %

Principle JV products/services: _____

Number of employees in China:

☐ Less than 100   ☐ 100 -500   ☐ Over 500

Intended duration of this JV when it was established:

☐ Less than 5 years ☐ 5-10 years ☐ 10-20 years ☐ 20-30 years ☐More than 30 years

Please indicate the reasons why your company chose the current location to establish the JV (can be more than one):

☐ Close to raw materials   ☐ Situated in economic zone

☐ Close to local partner   ☐ Close to Market

☐ Others, (please specify) _____

2. **Please indicate the extent to which you agree or disagree with the following statements as reasons for** *the decision of your company in entering into a JV in China.* **Meanwhile, please also indicate** *how satisfied you are* **with the performance of the JV in relation to our firm's expectations for each of the following objectives (circle a number).**

1) To explore global synergies with other subsidiaries

Strongly agree	1	2	3	4	5	6	7	Strongly disagree	
Very satisfied	1	2	3	4	5	6	7	Very dissatisfied	N/A

2) To enter Chinese market faster

Strongly agree	1	2	3	4	5	6	7	Strongly disagree	
Very satisfied	1	2	3	4	5	6	7	Very dissatisfied	N/A

3) To gain more competitive advantages

Strongly agree	1	2	3	4	5	6	7	Strongly disagree	
Very satisfied	1	2	3	4	5	6	7	Very dissatisfied	N/A

4) To spread financial risk

Strongly agree	1	2	3	4	5	6	7	Strongly disagree	
Very satisfied	1	2	3	4	5	6	7	Very dissatisfied	N/A

5) To reduce investment exposure

Strongly agree	1	2	3	4	5	6	7	Strongly disagree	
Very satisfied	1	2	3	4	5	6	7	Very dissatisfied	N/A

6) To avoid political risk or uncertainties

Strongly agree	1	2	3	4	5	6	7	Strongly disagree	
Very satisfied	1	2	3	4	5	6	7	Very dissatisfied	N/A

7) To deter competitive market entry

Strongly agree	1	2	3	4	5	6	7	Strongly disagree	
Very satisfied	1	2	3	4	5	6	7	Very dissatisfied	N/A

8) To overcome governmental trade barriers

Strongly agree	1	2	3	4	5	6	7	Strongly disagree	
Very satisfied	1	2	3	4	5	6	7	Very dissatisfied	N/A

9) To acquire knowledge of the local economy, politics, and culture

Strongly agree	1	2	3	4	5	6	7	Strongly disagree	
Very satisfied	1	2	3	4	5	6	7	Very dissatisfied	N/A

10) To acquire local market knowledge

Strongly agree	1	2	3	4	5	6	7	Strongly disagree	
Very satisfied	1	2	3	4	5	6	7	Very dissatisfied	N/A

11) To quickly generate profits in China

Strongly agree	1	2	3	4	5	6	7	Strongly disagree	
Very satisfied	1	2	3	4	5	6	7	Very dissatisfied	N/A

12) To benefit from low labour cost

Strongly agree	1	2	3	4	5	6	7	Strongly disagree	
Very satisfied	1	2	3	4	5	6	7	Very dissatisfied	N/A

13) To benefit from natural resources

Strongly agree	1	2	3	4	5	6	7	Strongly disagree	
Very satisfied	1	2	3	4	5	6	7	Very dissatisfied	N/A

Other reasons (please specify any other reasons not listed)

14) _____

Very satisfied	1	2	3	4	5	6	7	Very dissatisfied

15) _____

Very satisfied	1	2	3	4	5	6	7	Very dissatisfied

3. **Please indicate *who is responsible* for each of the following decisions in your joint venture.**

	Chinese partner			Shared			European partner
Setting JV strategic priority	1	2	3	4	5	6	7
Use of profit	1	2	3	4	5	6	7
Choice of key product lines	1	2	3	4	5	6	7
Allocating senior management positions	1	2	3	4	5	6	7
Choice of location of JV facilities	1	2	3	4	5	6	7
Choice of geographic market scope	1	2	3	4	5	6	7
Choice of major capital financing	1	2	3	4	5	6	7
Production planning	1	2	3	4	5	6	7
R & D planning	1	2	3	4	5	6	7
Product pricing	1	2	3	4	5	6	7
Sales and distribution	1	2	3	4	5	6	7
Quality control	1	2	3	4	5	6	7
Reward and incentive policies	1	2	3	4	5	6	7
Training and development policies	1	2	3	4	5	6	7
General management	1	2	3	4	5	6	7
Managing legal or government relations	1	2	3	4	5	6	7

4. **Please indicate how satisfied you have been *overall with the JV's performance*?**

Very satisfied	1	2	3	4	5	6	7	Very dissatisfied

Finally, please provide some background information about yourself.

Your position in the JV:

Have you been employed by either partner before you joined the JV?

No.

Yes; which one: ☐ European partner   ☐ Chinese partner

Thank you for your participation in this study. Please fax or mail the completed questionnaire to

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Appendix 3   **Information of Sino-European IJVs in This Study**

Name	Location	European Parent Nationality
ABB Ltd	Beijing	United Kingdom
BBA Airlaid Co. Ltd	Beijing	United Kingdom
BHP Billiton China	Beijing	United Kingdom
The BOC Group	Beijing	United Kingdom
BP China Ltd	Beijing	United Kingdom
British American Tobacco China	Beijing	United Kingdom
* CSM-CVSC	Beijing	United Kingdom
DBT China	Beijing	United Kingdom
The Expro Group	Beijing	United Kingdom
FLAG Group	Beijing	United Kingdom
* Glaxosmithkline Co. Ltd	Beijing	United Kingdom
* Howden Hua Engineering Co. Ltd	Beijing	United Kingdom
Joy Mining Machinery Co. Ltd	Beijing	United Kingdom
MMD Mining Machinery Developments Ltd.	Beijing	United Kingdom
Novar Building Products Ltd	Beijing	United Kingdom
Novartis Overseas Investments Ltd	Beijing	United Kingdom
Oxford Instruments	Beijing	United Kingdom
Reckitt Benckiser China	Beijing	United Kingdom
Rolls-Royce International Ltd	Beijing	United Kingdom
Scott Wilson Ltd	Beijing	United Kingdom
* Shell (China) Ltd	Beijing	United Kingdom
Shell China Exploration And Production Co. Ltd	Beijing	United Kingdom
Unilever (China) Ltd	Beijing	United Kingdom
Haworth LLC	Beijing	United Kingdom
Powderject Ltd	Beijing	United Kingdom
Zetex Electronics Ltd	Beijing	United Kingdom
* Zhonghua Light	Beijing	United Kingdom

Arnold Magnetics Ltd	Guangdong	United Kingdom
BP China Exploration & Development Co.	Guangdong	United Kingdom
BP Oil (China)	Guangdong	United Kingdom
Digital Lighting Co. Ltd	Guangdong	United Kingdom
Dong Guan Cooper Lighting Co. Ltd.	Guangdong	United Kingdom
Foseco Foundry Co. Ltd	Guangdong	United Kingdom
* Foshan Hepworth Acorn Pipe Co. Ltd	Guangdong	United Kingdom
Franke Kitchen Equipment Co. Ltd	Guangdong	United Kingdom
ICI Swire Paints Ltd	Guangdong	United Kingdom
Knauf Plasterboard (Dongguan) Co. Ltd	Guangdong	United Kingdom
Meiko Dishwashers Co. Ltd	Guangdong	United Kingdom
* Orsan Guangzhou Gourmet Powder Factory	Guangdong	United Kingdom
Poloair Guangzhou Ltd	Guangdong	United Kingdom
* Guangzhou Coats Plc	Guangdong	United Kingdom
Shenzhen Fairness Engineering Ltd	Guangdong	United Kingdom
* Shenzhen Unigel Telecommunication Co.	Guangdong	United Kingdom
SRS Plaster Ltd	Guangdong	United Kingdom
Swallow Mackenzie Ltd	Guangdong	United Kingdom
Testo Instrument Co. Ltd	Guangdong	United Kingdom
Volex Cable Assembly Co. Ltd	Guangdong	United Kingdom
Wall's Co. Ltd	Guangdong	United Kingdom
Wogen Pacific Ltd	Guangdong	United Kingdom
* Sino-British Boqing FoodStuffs Co. Ltd	Guangdong	United Kingdom
VA Tech Elin Transformer Co. Ltd	Guangdong	United Kingdom
Salcomp Co. Ltd	Guangdong	United Kingdom
Air Products And Chemicals Inc.	Guangdong	United Kingdom
The Independent Fragrance Inc.	Guangdong	United Kingdom
China Dyson Ceramic Systems	Guangdong	United Kingdom
Griffin Industries Ltd	Guangdong	United Kingdom
Grunenthal Pharmaceutical (China) Co. Ltd	Guangdong	United Kingdom
Foshan Hepworth Acorn Pipe Co. Ltd	Guangdong	United Kingdom

Kangol Headwear Ltd	Guangdong	United Kingdom
Amersham Health Ltd	Shanghai	United Kingdom
Analogue Holdings Ltd	Shanghai	United Kingdom
Atkins Ltd	Shanghai	United Kingdom
Associated British Foods	Shanghai	United Kingdom
Astrazeneca Pharmaceutical Co. Ltd	Shanghai	United Kingdom
Atlas Ward Structures Co. Ltd	Shanghai	United Kingdom
Battersby Kingsfield Ltd	Shanghai	United Kingdom
BHP Billiton China	Shanghai	United Kingdom
Black & Veatch Asia	Shanghai	United Kingdom
BOC (China) Holdings Co. Ltd	Shanghai	United Kingdom
BOS Automotive Systems Co. Ltd	Shanghai	United Kingdom
Bovis Lend Lease	Shanghai	United Kingdom
Corning China Ltd	Shanghai	United Kingdom
Domino Coding Ltd	Shanghai	United Kingdom
Filtronic Telecommunication Products Co. Ltd	Shanghai	United Kingdom
Gammon Skanska Ltd	Shanghai	United Kingdom
Hamworthy KSE Ltd	Shanghai	United Kingdom
International Nutrition Co.	Shanghai	United Kingdom
Johnson Mattey Chemicals Ltd	Shanghai	United Kingdom
Johnson Diversey Co.	Shanghai	United Kingdom
Liz Claiborne International Co. Ltd	Shanghai	United Kingdom
Quintiles Medical Development Co. Ltd	Shanghai	United Kingdom
Rexam Der Kwei Industrial Co. Ltd	Shanghai	United Kingdom
Rotork Gears Co. Ltd	Shanghai	United Kingdom
Shanghai Abacus Lighting Co. Ltd	Shanghai	United Kingdom
Shanghai Compair Compressor Ltd	Shanghai	United Kingdom
* SIG Combibloc Co. Ltd	Shanghai	United Kingdom
* SECCO	Shanghai	United Kingdom
Sino Infrastructure Partnership	Shanghai	United Kingdom
Smith & Nephew Ltd	Shanghai	United Kingdom

Shanghai Marconi Communication Equipment	Shanghai	United Kingdom
Syngenta Investment China Ltd	Shanghai	United Kingdom
Tarmac Heavy Building Material Ltd	Shanghai	United Kingdom
BOC Gases Co. Ltd	Shanghai	United Kingdom
Hubei Chaip Wei Garments Co. Ltd	Shanghai	United Kingdom
Wuhan Bundy Fluid Systems Co. Ltd	Shanghai	United Kingdom
* Wugang-Vesuvius Ceramics Co. Ltd	Shanghai	United Kingdom
Yaohua Pilkington Satefy Glass Co. Ltd	Shanghai	United Kingdom
* Zetex Electronic Ltd	Shanghai	United Kingdom
* Arc Glassware Nanjing	Shanghai	France
. AGIE Charmilles China (Shanghai) Ltd.	Shanghai	France
. * Alstom Shanghai Transformer Co., Ltd.	Shanghai	France
. * ALSTOM T&D Shanghai Power Automation	Shanghai	France
. ALSTOM Technical Services (Shanghai) Co.	Shanghai	France
. APCO CHINA	Shanghai	France
. Arjowiggins Fine Papers	Shanghai	France
. Aventis Pharma China	Shanghai	France
. * ATOFINA Shanghai Hydrogen Peroxide	Shanghai	France
. * Bacou Industrial Trading (Shanghai) Co. Ltd	Shanghai	France
. Bollore Shanghai Dielectric Materials Co., Ltd.	Shanghai	France
. Bontaz Centre (Shanghai) Co., Ltd.	Shanghai	France
. Brasserie FLO	Shanghai	France
. Carbone Lorraine Chemical Equipment Co.	Shanghai	France
. Cerestar Jiliang Maize Industry Co.,Ltd.	Shanghai	France
. Chloride Masterguard Power Systems Ltd	Shanghai	France
. Grappin Annat Metal Product	Shanghai	France
. Lafarge Onoda Gypsum (Shanghai) Co., Ltd.	Shanghai	France
. Lafarge Roofing Systems (China)	Shanghai	France
. Moret Pumps (Shanghai) Co., Ltd.	Shanghai	France
. Linya Swimming Pool & Water Treatment Co.	Shanghai	France
. Rhodia (China) Co., Ltd.	Shanghai	France

• Rhodia Silicones (Shanghai) Co., Ltd.	Shanghai	France
• Saint-Gobain Abrasives (Shanghai) Co., Ltd.	Shanghai	France
• Saint-Gobain Advanced Ceramics (Shanghai) Co.	Shanghai	France
• *** Saint-Gobain Hangzhou Vetrotex**	Shanghai	France
• Saint-Gobain Vetrotex Asie Pacifique	Shanghai	France
• Shanghai ALSTOM Transport Electric Equipment	Shanghai	France
• Shanghai Danone Biscuits Foods Co., Ltd.	Shanghai	France
• Shanghai Ethypharm Pharmaceutical Co., Ltd.	Shanghai	France
• Shanghai Laina Worsted Mill Co., Ltd.	Shanghai	France
• Shanghai Murga Steel Abrasive Co., Ltd	Shanghai	France
• Shanghai Long Ma Engineering Plastics Co.	Shanghai	France
• *** Shanghai Nexans Kanghua Cable Co., Ltd.**	Shanghai	France
• Shanghai Seb Electric Appliances Co., Ltd.	Shanghai	France
• Shanghai Vetro Arredo SSG Glass Co., Ltd.	Shanghai	France
• Sidel Machinery(Shanghai) Co.,Ltd	Shanghai	France
• Sigmacalon Shanghai	Shanghai	France
• Sigmakalon (Kunshan) Co., Ltd.	Shanghai	France
• Sofitel Jin Jiang Oriental Pudong Shanghai	Shanghai	France
• Valéo	Shanghai	France
• Yue-Sai Kan-Coty Cosmetics(Shanghai) Co.,Ltd.	Shanghai	France
• *** Alcatel Communication Systems**	Shanghai	France
• ALSTOM (China) Investment Co.,Ltd.	Beijing	France
• Beijing Montagne Medical Device Co., Ltd.	Beijing	France
• Beijing Rhodia Eastern Chemical Co., Ltd.	Beijing	France
• Beijing Chinefarge Cement Co.,Ltd	Beijing	France
• Beijing Yicheng Lafarge Concrete Co., Ltd.	Beijing	France
• *** Beijing Saint-Gobain Vetrotex Glass**	Beijing	France
• Beijing SEPR Refractories Co., Ltd.	Beijing	France
• Hua Si De Plastic Products Co. Ltd.	Beijing	France
• Beijing Shunfa Lafarge Cement Co., Ltd.	Beijing	France
• Beijing Yicheng Lafarge Concrete Co., Ltd.	Beijing	France

. Beijing Zhijie Flocculant Co., Ltd.	Beijing	France
. * Changchun Hella Automotive Lights Co.	Beijing	France
. Lafarge Roofing Systems (China)	Beijing	France
. Beijing Fortune Draeger Safety Equipment Co.	Beijing	France
. Beijing Fremont Automation Engineering Co.	Beijing	France
. * Nexans Tianjin	Beijing	France
. Ondéo Degrémont CHINA	Beijing	France
. Peugeot	Beijing	France
. Renault Trucks	Beijing	France
. Rexel Hailongxing Electrical Equipment Co., Ltd	Beijing	France
. Saint-Gobain Isover Beijing	Beijing	France
. Schneider Electric (China) Investment Co., Ltd.	Beijing	France
. Totalfinaelf (China) Investment Co., Ltd.	Beijing	France
. Atotech (Guangzhou) Chemicals Ltd.	Guangdong	France
. * Guangdong Degremont Water Engineering	Guangdong	France
. Knauf Plasterboard (Dongguan) Co., Ltd.	Guangdong	France
. * Orsan Guangzhou Gourmet Powder Co. Ltd.	Guangdong	France
. Robust (Guangdong) Food & Beverage Co., Ltd.	Guangdong	France
. Rousselot (Guangdong) Gelatin Co., Ltd.	Guangdong	France
. TOTAL Petroleum (Guangzhou) Co., Ltd.	Guangdong	France
. Via Plast	Guangdong	France
. * Alcatel SDGI Shenzhen Optical Fiber Co.,	Guangdong	France
. ABB Power System Communication & Automation Co. Limited	Guangdong	France
. ABB Xinhui Low Voltage Switchgear Co. Ltd.	Guangdong	France
. Linde-Xiamen Forklift Truck Corporation Ltd.,	Guangdong	France
. Leybold Vacuum Equipment Manufcturing Co.	Guangdong	France
. Long Wei Power Generation Technology Co. Ltd.	Guangdong	France
. Asimco (Bosch Braking Systems (Guangdong)	Guangdong	Germany
. Atotech (Guangdong) Chemicals Ltd.	Guangdong	Germany
. BASF Headway Polyurethanes (China) Co. Ltd.	Guangdong	Germany

.	Berres Kuechen Gmbh Schwarzwald	Guangdong	Germany
.	Bosch (Shunde) Gas Appliances Co., Ltd	Guangdong	Germany
.	Chun Tak Lighting Control Systems (Panyu) Ltd.	Guangdong	Germany
.	Changzheng Kloeckner Moeller Co. Ltd.	Guangdong	Germany
.	Clariant Guangdong Masterbatch Co.	Guangdong	Germany
.	Dongguan EFEN Electrical Products Co., Ltd	Guangdong	Germany
.	Dongguan Heitkamp & Thumann Steel Metal Factory	Guangdong	Germany
.	Zhuhai Schwarz Pharma Co., Ltd.	Guangdong	Germany
.	Dongguan Wickmann Electrical Product Co.,Ltd	Guangdong	Germany
.	ECO Schulte Gmbh & Co. KG	Guangdong	Germany
.	Geicke HK Ltd Ying Cheong Garment Co Ltd	Guangdong	Germany
.	German China Chemical Industries Co. Ltd.	Guangdong	Germany
.	*** Guangdong MR OLTC Ltd**	Guangdong	Germany
.	GMD Guangdong Mak Diesel Engine Co Ltd	Guangdong	Germany
.	Gruenenthal Pharmaceutical (China) Co., Ltd	Guangdong	Germany
.	Guangdong Agfa Imaging Product Company	Guangdong	Germany
.	Henkel Adhesives Company Ltd.	Guangdong	Germany
.	KME Metals (Dongguan) Limited	Guangdong	Germany
.	Knauf New Building Material Product Co.Ltd	Guangdong	Germany
.	Kufner (Guangdong) Textiles Manufacturing Co.	Guangdong	Germany
.	*** Lonza Guangzhou Ltd**	Guangdong	Germany
.	*** MTU Maintenance Zhuhai Co., Ltd.**	Guangdong	Germany
.	Tianyi Electrical Applicance Co., Ltd.	Guangdong	Germany
.	*** Siemens Transmission Systems Co. Ltd.**	Guangdong	Germany
.	Voith Zhongxing Power Transmission Co.	Guangdong	Germany
.	Wicke Castors Co. Ltd. Zhongshan	Guangdong	Germany
.	Zhanjiang Saint-Hua Glass Container Co.Ltd	Guangdong	Germany
.	Zhaoqing Henkel Cosmetics Co.Ltd.	Guangdong	Germany
.	Zhuhai Cellulose Fibers Co. Ltd.	Guangdong	Germany
.	*** Zhangjiagang Brose Automotive Systems Co**	Guangdong	Germany

. Zhenjiang Schaefer OTL Storage Equipment Co.	Guangdong	Germany
. Zhuhai Cellulose Fibers Co. Ltd.	Guangdong	Germany
. Zhuhai Schwarz Pharma Company Limited	Guangdong	Germany
. Alcatel Transport Automation Control Systems Co. Ltd. (Beijing ATACS)	Beijing	Germany
. August Vormann Gmbh & Co.,	Beijing	Germany
. BASF (China) Co. Ltd.	Beijing	Germany
. Beijing Agie Charmilles Industrial Electronics	Beijing	Germany
. Changcheng Bilfinger+Berger Construction Co.	Beijing	Germany
. Beijing Delong Electric Power Equipment Co.	Beijing	Germany
. Beijing Erbsloeh Automotive Parts Co., Ltd.	Beijing	Germany
. Beijing Fresenius Pharmaceutical Co. Ltd.	Beijing	Germany
. Beijing Fresenius Pharmaceutical Co. Ltd.	Beijing	Germany
. *** Beijing Novartis Pharma Ltd**	Beijing	Germany
. Wanyuan GDX Automotive Sealing Products Co.	Beijing	Germany
. Beijing Zimmer Sanlian Textile & Chemical Engineering Co. Ltd.	Beijing	Germany
. *** Bitzer Refrigeration Equipment Co. Ltd.**	Beijing	Germany
. *** Dalian Termica Heat Pump Systems Co.**	Beijing	Germany
. German Perfact Window Co. Ltd.	Beijing	Germany
. Beijing Fremont Automation Engineering Co.	Beijing	Germany
. Gleason-Pfauter Maschinenfabrik Gmbh	Beijing	Germany
. *** Hammelmann Pump System (Tianjin) Co.**	Beijing	Germany
. Herberts-Akzo-Red Lion Automotive Coatings Co. Ltd.	Beijing	Germany
. Hofmann-Nago-Pausch Medical Equipment (Beijing) Co. Ltd.	Beijing	Germany
. Hua An Fleisch Gmbh	Beijing	Germany
. Kloeckner Haensel Far East Pte. Ltd.,	Beijing	Germany
. *** Schaltbau Ltd**	Beijing	Germany
. *** Siemens Electronic (Beijng) Ltd.**	Beijing	Germany

.	Tianjin Bebro Electronic Co. Ltd.	Beijing	Germany
.	Tianjin Hexal Pharmaceutical Co. Ltd.	Beijing	Germany
.	Tianjin Unis Electronics Co.	Beijing	Germany
.	Xin Detelecom International Ventures Co. Ltd.	Beijing	Germany
.	Ximen Infolai Machinery Fittings Co.	Beijing	Germany
.	ABB Engineering (Shanghai) Co. Ltd.	Shanghai	Germany
.	*** ABB Shanghai Transformer Co., Ltd.**	Shanghai	Germany
.	Alldos Dosiertechnik Gmbh	Shanghai	Germany
.	Amcor Shanghai White Cap Co. Manufacturing	Shanghai	Germany
.	Aoding Machinery Co.	Shanghai	Germany
.	BASF Chemicals Company Limited	Shanghai	Germany
.	*** BASF Hua Yuan Nylon Co. Ltd. (BHYN)**	Shanghai	Germany
.	BASF Shanghai Coating Co. Ltd. (BSC)	Shanghai	Germany
.	*** Bayer Shanghai Pigments Company Limited**	Shanghai	Germany
.	Bayer Zhongxi Agrochemical Co.	Shanghai	Germany
.	Berufsbildungszentrum (Hanns-Seidel-Stiftung) Shanghai	Shanghai	Germany
.	*** Boehringer Ingelheim Pharmaceuticals**	Shanghai	Germany
.	Bomag (Shanghai) Compaction Mashinery Co.	Shanghai	Germany
.	Boge Compressors (Shanghai) Co., Ltd	Shanghai	Germany
.	BOGE Kompressoren (Shanghai) Co. Ltd.	Shanghai	Germany
.	Braun (Shanghai) Co., Ltd.	Shanghai	Germany
.	Burgmann (Shanghai) Co. Ltd.	Shanghai	Germany
.	BYK Chemie Asia Pacific Pte Ltd.	Shanghai	Germany
.	Chloride Masterguard Power Systems Ltd.	Shanghai	Germany
.	CICO Electronic (Shanghai) Co. Ltd.	Shanghai	Germany
.	*** Changzhou Troester Equipments Ltd**	Shanghai	Germany
.	CONSTAB Additive Polymers Shanghai	Shanghai	Germany
.	Daimlerchrysler SIM Technology Co. Ltd.	Shanghai	Germany
.	Deckel Maho Gildemeister (Shanghai) Machine Tools Co., Ltd.	Shanghai	Germany

.	Degussa Chemicals (Shanghai) Co., Ltd.	Shanghai	Germany
.	Delan Electric (Shanghai) Co., Ltd.	Shanghai	Germany
.	E.G.O. Electrical Componet (Shanghai) Co.	Shanghai	Germany
.	Kurtz (Shanghai) Co. Ltd.	Shanghai	Germany
.	*** Lian He Automotive Electronics Co.**	Shanghai	Germany
.	ODU Shanghai Manufacturing Co., Ltd.	Shanghai	Germany
.	Lumberg Electronics (Shanghai) Ltd.	Shanghai	Germany
.	*** Peiniger Corrosion Protection**	Shanghai	Germany
.	Reemtsma Cigarettenfabrik Gmbh,	Shanghai	Germany
.	Schaeff Machinery (Shanghai) Co. Ltd.	Shanghai	Germany
.	Schattdecor (Shanghai) Co., Ltd.	Shanghai	Germany
.	*** Schneck Shanghai Machinery Corp. Ltd**	Shanghai	Germany
.	*** Shanghai Aibeisheng Co.**	Shanghai	Germany
.	*** Shanghai Automotive Brake Systems Co.**	Shanghai	Germany
.	Shanghai Ao Lin Dan Stationery Co. Ltd.	Shanghai	Germany
.	Shanghai DEUTA Electrical Equipment Co.	Shanghai	Germany
.	Shanghai Draeger Medical Instrument Co. Ltd.	Shanghai	Germany
.	Shanghai Henkel Kemeng Cosmetics Co. Ltd.	Shanghai	Germany
.	Shanghai Henkel Surface Technology Co. Ltd.	Shanghai	Germany
.	Shanghai Huade Aluminium Smelting Co., Ltd.	Shanghai	Germany
.	*** Shanghai Huf-Liyong Automotive Lock Co.**	Shanghai	Germany
.	Huihao Wooden Door Manufacture Co. Ltd.	Shanghai	Germany
.	Shanghai Liebherr Machinery Equipment Co.	Shanghai	Germany
.	*** Shanghai MANN+HUMMEL Filter Co., Ltd.**	Shanghai	Germany
.	Shanghai Pepperl+Fuchs Automation Co. Ltd.	Shanghai	Germany
.	Shanghai Veit-Hongxin Ironing Equipment Co.	Shanghai	Germany
.	Shanghai URBAN-BAO Machinery Co. Ltd.	Shanghai	Germany
.	Shanghai Volkswagen Automotive Co. Ltd.	Shanghai	Germany
.	*** Shanghai Vogel Co.**	Shanghai	Germany
.	*** Siemens Dongzi Automotive Electric Motor**	Shanghai	Germany
.	Siemens High Voltage Switchgear Ltd.,	Shanghai	Germany

.	Siemens Industrial Automation Co. Ltd.	Shanghai	Germany
.	* Simens Mobile Communication Ltd	Shanghai	Germany
.	* Siemens Shanghai Medical Equipment Ltd.	Shanghai	Germany
.	Sulzer Shanghai Engineering & Machinery Works	Shanghai	Germany
.	Texfit Shanghai Garment Co., Ltd.	Shanghai	Germany
.	Thyssen Krupp Elevators Co., Ltd.	Shanghai	Germany
.	Truetzschler Textile Machinery (Shanghai) Co.	Shanghai	Germany
.	TRUMPF Siberhegner Ltd.	Shanghai	Germany
.	TUEV Rheinland (Shanghai) Co., Ltd.	Shanghai	Germany
.	* United Automotive Electronic System Co.	Shanghai	Germany
.	Veka Plastics (Shanghai) Co., Ltd.	Shanghai	Germany
.	VOGT Electronic Shanghai Co. Ltd.	Shanghai	Germany
.	* Vopak Ningbo Terminal Co. Ltd	Shanghai	Germany
.	Vohringer Wood Products (Shanghai) Co., Ltd.	Shanghai	Germany
.	Voith Siemens Hydro Power Generation Ltd.	Shanghai	Germany
.	Wacker Polymer Materials (Shanghai) Co. Ltd.	Shanghai	Germany
.	Wieland Metals Shanghai Ltd.	Shanghai	Germany
.	Yixing DO-Ceram Engineered Ceramics Co.	Shanghai	Germany
.	* ZFSJ	Shanghai	Germany
.	Zimmer AG / Shanghai Lianji Synthetic Fibre Co.	Shanghai	Germany
.	* Zhangjianggang Yangtse Spinning Co. Ltd	Shanghai	Germany
.	* Zhenjiang - Moeller Electical Switcher	Shanghai	Germany

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