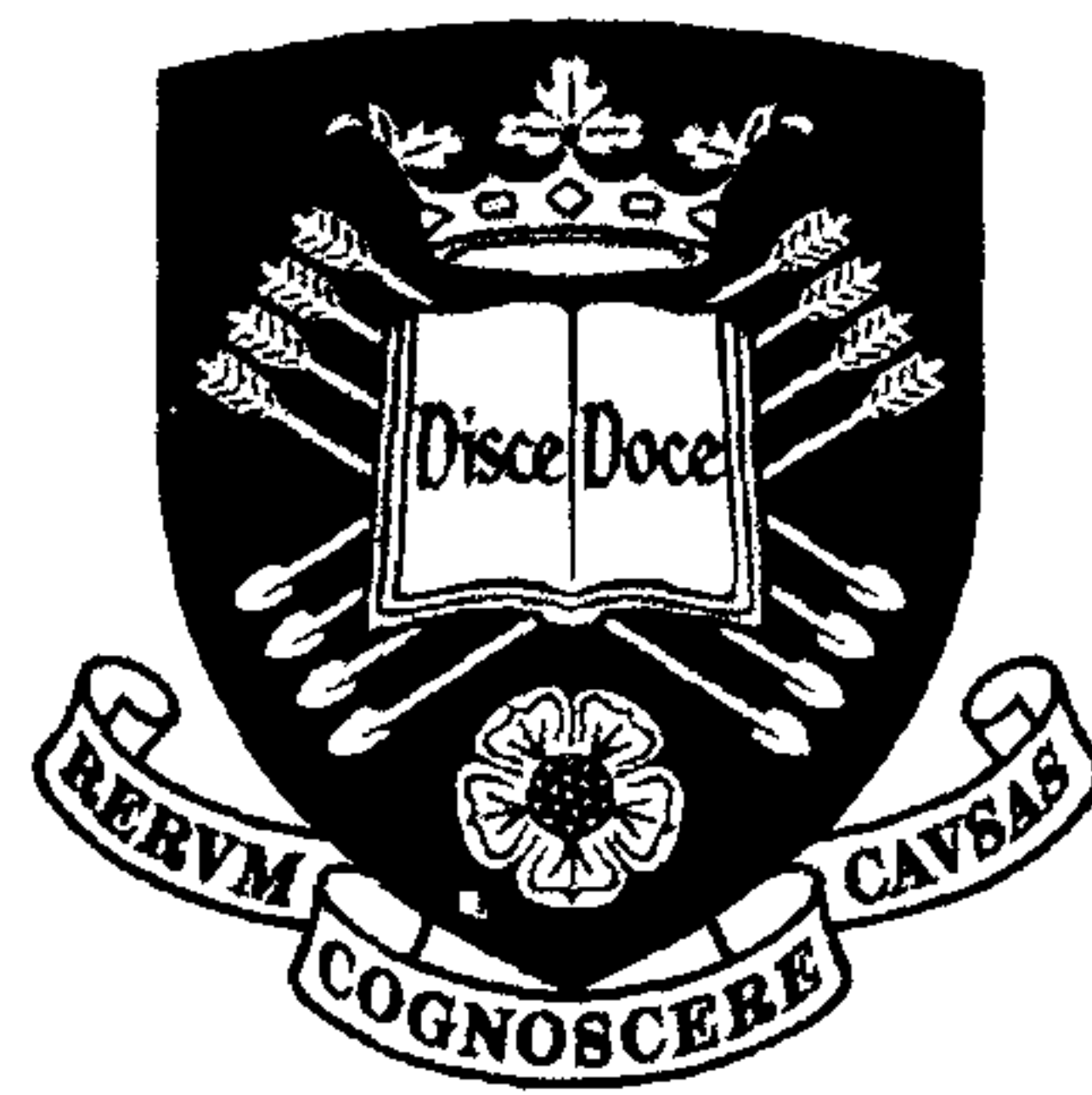


THE MANAGEMENT AND PERFORMANCE OF  
INTERNATIONAL JOINT VENTURES

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## **DECLARATION**

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institution of learning.

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## **ABSTRACT**

This study investigates several core aspects of the management and performance of international joint ventures with parent firms from Europe, North America and Australia. The focus of the study is the relationships between management control of IJVs, autonomy granted to the IJV management, trust between IJV partners, perceptions of cultural differences between IJV partners and the performance of IJVs. The study builds on the existing literature by examining new data and providing new empirical insights. Data was collected by means of an international mail survey using a self-administered questionnaire and an e-mail survey. The General Directorate of Foreign Investment (GDFI) database in Turkey and the OSIRIS database served to provide two sampling frames for the data collection. The perspective of this study is an empirical investigation of the nature of management control exercised by the parent firms over the joint ventures. This study provides new evidence on the relationships between the dimensions of management control and the performance of a sample of JVs. The overall concept of autonomy is examined by discussing differences in the management and control of decision-making as categorized by operational versus strategic decisions. Furthermore, the influence of IJV performance and IJV duration on autonomy is considered. The relative importance of both national culture and corporate culture differences on the management of the joint venture is considered. The influence of joint venture age and the influence of autonomy granted to JV management are investigated with particular reference to culture. This study provides a framework of trust by treating perceptions of cultural differences as antecedents to trust, the degree of JV autonomy granted as a consequence of trust and JV performance as both antecedent to and consequence of trust. This study identifies the key determinants of IJV performance as management control of IJVs, autonomy granted to the IJV management, trust between IJV partners and perceptions of cultural differences between IJV partners.



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## CHAPTER 1: INTRODUCTION

### 1.1 Introduction

Research on strategic collaboration between firms has received increasing attention in the literature during the last two decades (see Reus and Ritchie, 2004 for a review). The joint venture (JV) is one of the most frequently used contractual forms in strategic alliances. International joint ventures are a major means of global expansion for multinational enterprises (UNCTAD, 2004). Joint ventures are superior to markets and hierarchies when firms face uncertainty about future development or when information is inadequate (Balakrishnan and Koza, 1993). Nevertheless, the inherent complexity of having two or more owners who may be competitors and collaborators leads to certain difficulties in management. Such problems are magnified when an international joint venture (IJV) is operating in a risky and uncertain setting in which political and opportunistic behavior is rife, as this increases the transaction costs due to increased monitoring, communication, and negotiation requirements (Beamish and Kachra, 2004; Frayne and Geringer, 1990). Thus, joint ventures can only be justified when the benefits of joining outweigh the increased governance costs and possible leakage of know-how (Beamish and Banks, 1987). Maintaining effective and efficient control over operations and sustaining the commitment of the partners are therefore the keys to the success of IJVs.

The present study aims to investigate some core aspects of the management of international joint ventures with parent firms from Europe, North America and Australia. The focus of the study is the investigation of the relationships between the factors influencing the management and the performance of IJVs, including: management control of IJVs, autonomy granted to the IJV management, trust between IJV partners and cultural difference between IJV partners. It involves a survey of 109 parent firms that have formed joint ventures with foreign firms. A distinguishing feature of this thesis is that it examines the perspectives of the respondent companies with respect to the influence of “soft” variables, such as autonomy, trust and culture, on the effective management of these international interfirm relationships. The intention of the study is not to develop new theoretical perspectives of joint venture management and



performance, but rather to work within the context of prevailing theoretical views. This study in part is a replication of the studies conducted with some of the same hypotheses examined but with extension to a different data set. The next section provides a brief review of the definition of JVs. The third section provides a conceptual model of the study. The fourth section provides an outline of the thesis and the fifth section sets out the areas of research that the study explores. A summary is provided in the final section.

## **1.2 International Joint Ventures**

Joint ventures (JVs) involve two or more legally distinct organizations (the parents), each of which actively participates in the decision-making activities of the jointly owned entity (Geringer, 1988). If at least one parent organization is headquartered outside the JV's country of operation, or if the venture has a significant level of operations in more than one country, then it is considered to be an international joint venture (IJV). This entity is subject to the joint control of its parent firms, each of which is economically and legally independent of the other (Shenkar and Zeira, 1987: 547). A joint venture is further defined here as an affiliate where foreign ownership falls between 10 per cent and 90 per cent. According to US Department of Commerce and Chowdhury (1992), affiliates with a foreign shareholding of less than 10 per cent are considered to be portfolio investments. An affiliate with foreign ownership of more than 90 per cent is viewed as a wholly-owned subsidiary (WOS).

Two contractual forms of JV can be identified - equity joint ventures and non-equity joint ventures. Equity JVs (EJVs) involve the establishment of a new company – the child - in which two or more partners - the parents - hold an equity stake (Harrigan, 1985). Each partner will expect to participate in the decision-making activities of the JV and will also anticipate a proportional share of dividend and expect representation on the board of directors (Harrigan, 1985; Geringer, 1991). Non-equity JVs (NEJVs) in contrast do not involve the creation of new firms; rather they are formal long-term agreements between partners to co-operate in some activity. The establishment of NEJVs involves the allocation of tasks, costs and revenues, and they involve at least a moderate degree of inter-organizational dependence (Contractor and Lorange, 1988).

IJVs are commonly used by firms as a means of competing within multi-domestic or global competitive arenas (Porter and Fuller, 1986; Harrigan, 1988). Joint ventures are likely to be established by parent companies when the partners are unable to pursue a development on their own, either because of lack of expertise or resources, or because they cannot dominate the marketplace to a sufficient extent to enable them to buy-in or takeover existing sources of expertise (Pfeffer and Salancik, 1978; Harrigan and Newman, 1990). Joint ventures represent an effective way of coping with the increasing competitive and technological challenges (Perlmutter and Heenan, 1986).

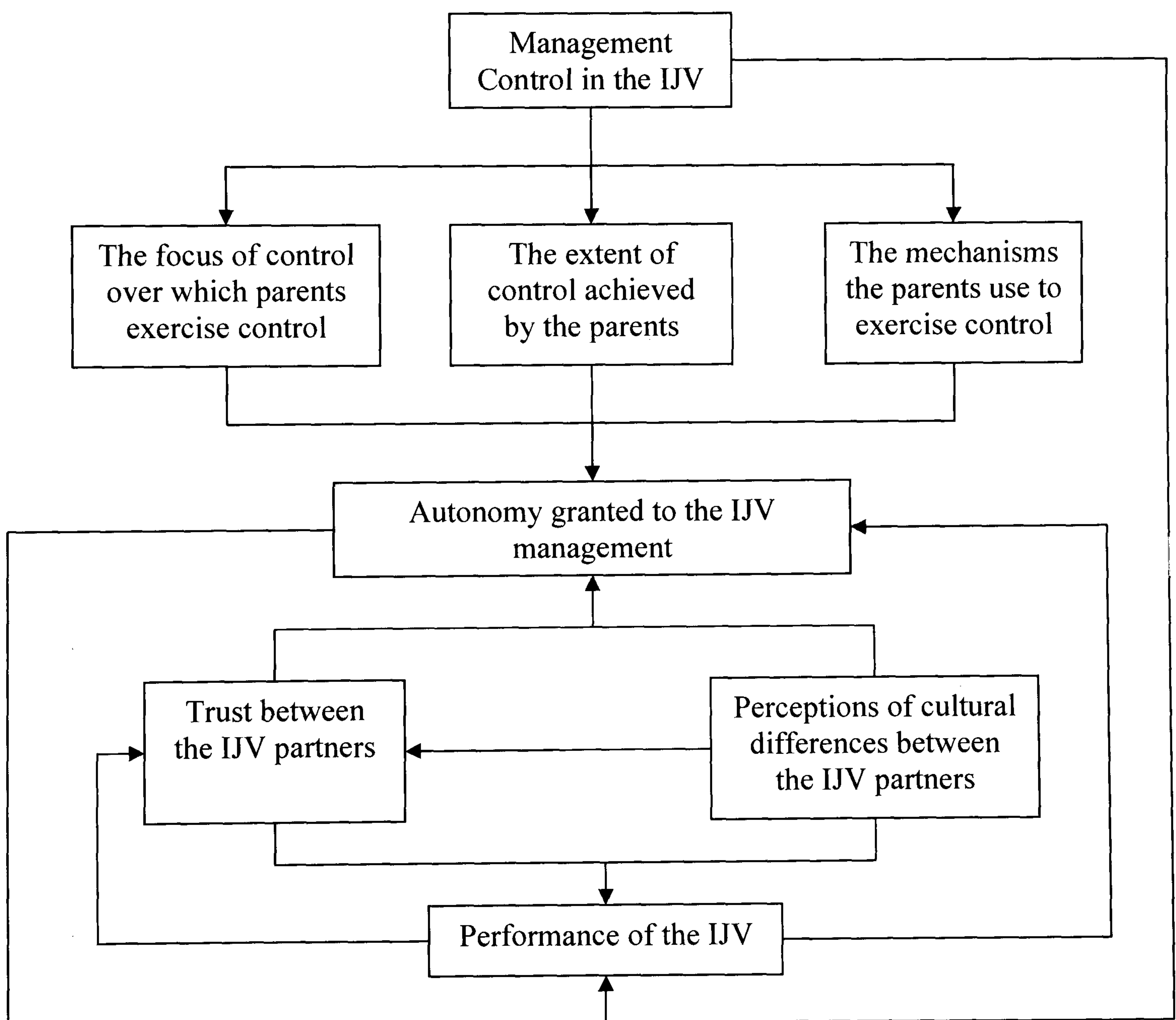
Among other benefits, IJVs can help firms share costs, enter new markets (Glaister and Buckley, 1996), supplement their capabilities (Inkpen and Dinur, 1998; Hitt et al., 2000; Lane et al., 2001), seek more radical innovations by integrating knowledge from different areas of science and technology (Lubatkin et al., 2001; Nummela, 2003), and create common platforms for products and services (Mowery et al., 1998; Caloghirou et al., 2003). Western firms opt for IJVs as a method for continued growth and survival in light of maturing local markets and increased international competition (Morris and Hergert, 1987; Gomes-Casseres, 1989; Glaister and Buckley, 1994). However, despite their increasing number and the strategic advantages they provide, IJVs emerge as a problematic organizational form in terms of performance (Beamish and Delios, 1997; Robson et al., 2002; Brouthers and Bamossy, 2006) and also bring challenges not found within domestic alliances.

### **1.3 The Management and Performance of IJVs**

Research on international joint ventures (IJVs) has continued to attract the attention of international business scholars in light of the popularity of IJVs and their overall unsatisfactory performance (Choi and Beamish, 2004; Geringer and Hebert, 1989; Luo, Shenkar and Nyaw, 2001; Yan and Gray, 1994). Parkhe (1993) has identified four major dimensions of JV study in the prior literature: motives for JV formation, partner selection characteristics, control/conflict, and JV stability/performance, and in reviewing these lines of study he concludes that researchers have non-cumulatively focused on different

dimensions. It is the purpose of this study to attempt to relate two of the four core dimensions of JV study identified by Parkhe, those of the management/control of JVs and JV performance. The focus of the study is the investigation of the relationships between the factors influencing the management and the performance of IJVs. Figure 1.1 provides an overall model of the factors for the focus of this study and the predicted relationships between them. As shown in Figure 1.1, the factors influencing the management and the performance of IJVs consist of: management control of IJVs, autonomy granted to the IJV management, trust between IJV partners and perceptions of cultural differences between IJV partners.

**Figure 1.1 Model of the management and performance of IJVs**





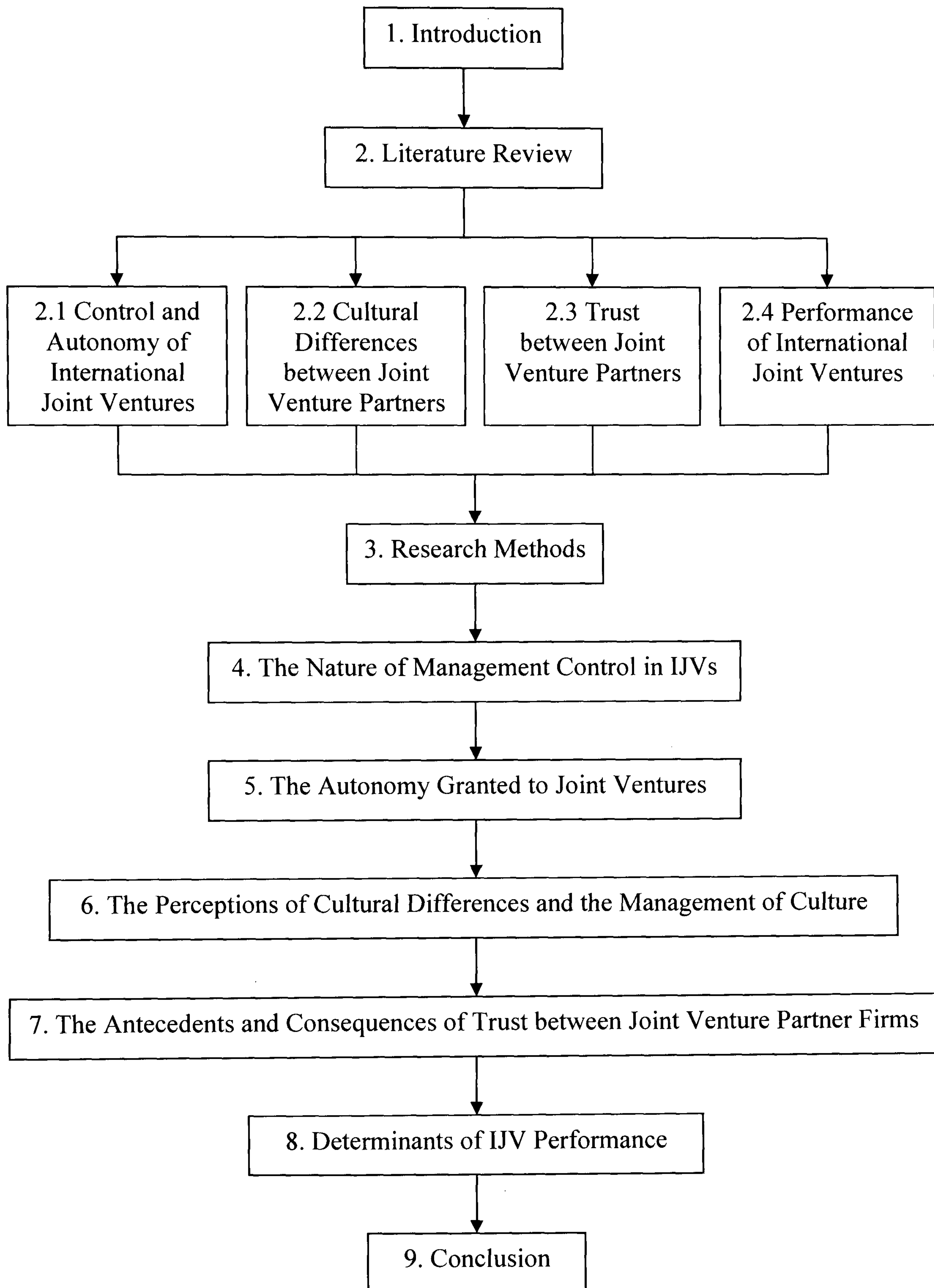
As shown in Figure 1.1, the aim of this study is to address mainly the following relationships: (1) Does performance of the IJV vary with the level of management control?; (2) Does performance of the IJV vary with the level of autonomy granted to the IJV management?; (3) Does performance of the IJV vary with the perceptions of culture differences between the IJV partners?; (4) Does autonomy granted to the JV management vary with the perceptions of culture differences between the IJV partners?; (5) Does performance of the IJV influence trust between the IJV partners?; (6) Do the perceptions of culture differences between the IJV partners influence trust between the IJV partners?; (7) Does trust between the IJV partners influence the level of autonomy granted to the IJV management?; (8) Does trust between the IJV partners influence performance of the IJV?; and (9) Does the level of autonomy granted to the IJV management influence the performance of the IJV?.

#### **1.4 Thesis Structure**

Figure 1.2 provides an overview of the thesis and as shown, the thesis is divided into 9 chapters. Chapter 2 reviews the main theoretical perspectives regarding the management and the performance of IJVs. The literature review is divided into four sections: control and autonomy of international joint ventures, cultural differences between joint venture partners, trust between joint venture partners and performance of international joint ventures. The sections of the literature review are dictated by the factors influencing the management and the performance of IJVs, chosen for the investigation of this study and shown in Figure 1.1. The literature review provides a theoretical background to the study and considers the previous findings. Chapter 3 sets out the research methods employed to collect the data for undertaking the empirical analysis.

The analysis of the primary data is presented in Chapters 4 to 8. These chapters are structured in parallel to the sections of Chapter 2 and are organized as follows: the nature of management control in IJVs, the autonomy granted to joint ventures, the perceptions of cultural differences and the management of culture, the antecedents and consequences trust between joint venture partner firms and determinants of IJV performance.

**Figure 1.2 Overview of the Thesis Structure**





The background literature, the research hypotheses of the study, measures of the variables, the results and the discussion are detailed in each of the respective analysis chapters. The literature review provided in Chapters 4 – 8 aim to review the main published work concerning the hypotheses and to demonstrate how the hypotheses relate to and are built upon previous studies. Lastly, Chapter 9 provides a review of the study including a summary of its findings. The content covered in each of these chapters is described in detail in the next section.

### **1.5 Domain of the Study**

Chapter 2, the literature review is divided into four sections: control and autonomy of international joint ventures, cultural differences between joint venture partners, trust between joint venture partners and performance of international joint ventures.

Section 2.1 of the literature review considers control and autonomy of international joint ventures. This section focuses on the nature and basis of control in IJVs and the options available. It begins by discussing why control is such an important issue for IJVs. The attributes and dimensions of control are then identified. Distinctions are drawn between strategic and operational control. Equity share, bargaining power, and resource provision are seen to provide foundations for partner control in IJVs. The literature on joint-ventures has emphasized the joint-venture as a "child" of dominant parent organizations without paying much attention to the internal processes of managing the joint-venture. In particular joint-ventures have the potential to develop strategy of their own and to make autonomous decisions. Arguments against and for IJV autonomy are presented. An explanatory model of joint-venture autonomy is discussed using resource-dependence and transaction cost theories. Finally, the mechanisms available to joint venture managers to influence and gain compliance from parent firms are addressed.

Section 2.2 of the literature review considers cultural differences between joint venture partners. This section examines the ways in which culture can impact upon the implementation of cooperative strategies. It shows how culture can create barriers to collaboration between organizations and yet how, at the same time, the knowledge

embodied in cultures can provide a valuable resource for an alliance. Three commonly used measures of cultural distance- Hofstede's data dimensions of national culture, the Kogut-Singh data index of cultural distance and Ronen and Shenkar's data culture clusters- are summarised. The following points are addressed: why culture is relevant for cooperative strategy, what specific consequences culture can have and what options there are for managing cultural diversity within alliances. The effect of dimensions of national and organizational culture differences on international joint venture (IJV) performance is examined. Six core organizational practices that differentiate organizations in their management orientation suggested by Hofstede are discussed. The influence of cultural distance on control of the joint venture is examined. Using Hofstede's five national culture dimensions, the fit between management practices and national culture are examined. Finally, the limitations of Hofstede's framework are addressed.

Section 2.3 of the literature review considers trust between joint venture partners. Although trust has been identified as a critical factor in alliance management, rigorous conceptual and empirical developments of alliance trust have remained elusive. The objective of this section is to develop a conceptual understanding of joint venture trust. JV trust is defined as reliance on another JV party (i.e., person, group, or firm) under a condition of risk (Currall and Judge, 1995). Previous literature on trust is reviewed and this shows that trust has been viewed from three different perspectives: structural, social, and psychological. This section focuses on two approaches towards managing interorganizational relationships. One is based on opportunism and focuses on contractual mechanisms (the contract-centred approach) while the other is based on trust and focuses on cooperative mechanisms (the relationship-centred approach). A framework of the antecedents and consequences of JV trust is discussed. The factors considered as antecedents are: prior cooperative relationships, habitualization, individual attachment, organizational fit, and assessment of partner competence. Proposed consequences or outcomes of JV trust include forbearance, governance structures, relationship investments, increases in JV scope, and JV performance. How the two concepts of trust and control operate in a parallel fashion to generate confidence in



partner cooperation is examined. The complexities of the trust-control relationship are explored and the impact of control mechanisms on trust level is discussed.

Section 2.4, the final section of the literature review, considers performance of international joint ventures. This section examines the prior literature on JV performance and indicates three areas in which major inconsistencies occur. First, whose perspective is used for performance measurement—that of one parent, two parents, or the JV management? Second, variations occur in performance measures which may range from financial performance indicators to subjective perceptions of performance. Third, the appropriateness of different performance measures changes as a JV matures. Moreover, these inconsistencies make cross-study comparisons and generalisations about JV performance particularly problematic. The debate over JV performance measures is clearly a sub-set of wider concerns regarding the assessment of organisation performance in general, in which the evaluation of JV performance is a particular challenge. The controversy about the variables that *predict* performance and the variables that *indicate* performance is outlined. The factors that have been suggested in the literature as potentially important determinants of JV performance are discussed.

Chapter 3 sets out the research methods employed to collect the data for undertaking the empirical analysis. This chapter establishes the background of primary data collection by means of a questionnaire survey administered to senior managers in joint ventures with parent firms from Europe, North America and Australia. The issues and considerations in the process of data collection are reported and the sample characteristics of the collected data are provided. An international mail survey using a self-administered questionnaire was employed and an e-mail survey was used to follow-up the respondents. The General Directorate of Foreign Investment (GDFI) database in Turkey and the OSIRIS database served to provide two sampling frames for the data collection.

Chapter 4 provides new evidence on the relationships between the dimensions of management control and the performance of a sample of JVs. The perspective of this chapter is an empirical investigation of the nature of management control exercised by

the parent firms over the joint ventures. The main goals of the chapter are to identify the dimensions of management control and to test hypotheses on the relationship between dimensions of control and the performance of IJVs. Specifically, the following research questions are addressed: (1) Do the parent firms focus their control over particular activities of the JV rather than attempting to achieve overall control of the joint venture?; (2) If the joint venture parent is a minority shareholder, are more of the other mechanisms of control derived from this parent?; (3) If the joint venture parent has fewer members on the JV management team, are more of the other mechanisms of control derived from this parent?; and (4) Does satisfaction with JV performance vary with the level of management control?. The evidence indicates that different parents are more active in different functional areas of management. Parents that are minority shareholders appear to compensate for their lack of control associated with a relatively small equity shareholding by securing other mechanisms of control. Similarly, if the parent has fewer members on the management team, more of the other mechanisms of control are derived from this parent. Lastly, parents who dominate or have responsibility for management control will have a higher perceived level of satisfaction of JV performance than those parents who do not dominate or have responsibility for management control.

Chapter 5 provides evidence on the nature of autonomy in a sample of IJVs. The overall concept of autonomy is examined by discussing differences in the management and control of decision-making as categorized by operational versus strategic decisions. Furthermore, the influence of IJV performance and IJV duration on autonomy is considered. The perceptual measure of autonomy shows that the respondents consider that there is a relatively high degree of autonomy afforded the IJVs in this study. The findings of the study show that there is a spectrum of autonomy across decision-making areas. IJV managers have a relatively high degree of operational autonomy but relatively low levels of strategic autonomy in decision-making. As performance improves, an extension of autonomy is likely to be granted in some decision-making areas. There is no relationship found between the age of the IJV and autonomy. In broad terms IJV management cannot presume that there will be a simple extension of autonomy of decision-making as the venture matures.



Chapter 6 considers the relative importance of both national culture and corporate culture differences on the management of the joint venture. This study in part is a replication of the studies conducted by Dong and Glaister (2007a, 2007b) with some of the same hypotheses examined but with extension to a different data set. Specifically, the following research questions are addressed from the perspective of the respondent parent firms: (1) Is national culture or corporate culture a more important factor contributing to different views on the management of joint ventures?; (2) Does the perceptions and the effects of culture differences vary with the age of the joint venture? In other words, are the respondent managers' perceptions of culture differences moderated by time? Further, is there any difference between the perceptions of national and corporate culture differences over time?; (3) Do the importance of culture differences on JV outcomes differ for those parent firms that have adopted culture management policies and those that have not?; (4) Does the impact on JV performance vary with the perception of culture differences?; (5) Does the parent firms' satisfaction of JV performance vary with the perception of culture differences?; and (6) Does the autonomy granted to the JV management vary with the culture differences contributing to different views on the management? The first and the second research questions were examined by Dong and Glaister (2007a), the third research question was examined by Dong and Glaister (2007b) and the last three research questions are new to this study.

There is strong support that from the perspective of the parent firms, corporate culture differences will be a more important factor contributing to different views on the management of JVs compared with national culture differences. This study finds that alliance age appears to moderate the relationship between cultural diversity and JV management for the perceptions of corporate culture differences, but not for perceptions of national culture differences. The findings show that the perceptions of national and corporate culture differences are reduced in firms adopting culture management policies. The last three research questions are new to this study and it appears that corporate culture is more significant than national culture in terms of findings. Perceived corporate culture differences have a greater impact on JV performance than do perceived national culture differences. Perceived corporate cultural differences have a stronger relationship



with the satisfaction of parent firms with JV performance than do perceived national cultural differences. Corporate culture differences contributing to differing views on JV management are more significantly correlated with autonomy granted compared to national culture differences contributing to differing views on JV management.

Chapter 7 provides a framework of trust by treating perceived cultural differences as antecedents to trust, the degree of JV autonomy granted as a consequence of trust and JV performance as both antecedent to and consequence of trust. Taking a different perspective, this chapter highlights the important role of trustees in trust building. This study proposes and verifies several contingency variables that moderate the level of trust. This chapter develops an empirically testable framework of JV trust with a focus on trust's antecedents and consequences. Specifically, the following research questions are addressed: (1) Does satisfaction with joint venture performance influence the level of trust between joint venture partners?; (2) Do perceived national and corporate culture differences influence the level of trust between joint venture partners?; (3) Does the level of trust between joint venture partners influence the level of autonomy granted to the joint venture management?; and (4) Does the level of trust between joint venture partners influence satisfaction with joint venture performance?.

The findings of the study are, first, the greater the satisfaction with JV performance, the greater the level of trust between the parent firms. Second, the findings provided little support for the relevance of perceived national cultural differences in trust development. On the contrary, this study finds that perceived corporate cultural differences between JV parent firms are a predictor of the level of trust building. The findings confirmed that the smaller the perceived corporate cultural differences between the parent firms, the greater the level of trust between the parent firms. Fourth, the results confirmed the positive effect of trust as a driving force in sound IJV performance. The findings showed that the greater the level of trust between the parent firms, the greater the satisfaction with JV performance. The findings make a contribution by confirming that the greater the level of trust between the parent firms, the greater the degree of autonomy granted to the JV management.

Chapter 8 identifies the key determinants of IJV performance as management control of IJVs, autonomy granted to the IJV management, trust between IJV partners and perceived cultural differences between IJV partners. A number of authors have noted that when conducting or comparing organisational performance studies it is important to specify whether it is the variables that *predict* performance, or the variables that *indicate* performance, that are of interest (Lewin and Minton, 1986; Cameron, 1986). The focus of chapter is the investigation of the factors influencing the performance of IJVs i.e. performance determinants. The prior literature indicates that there are four key factors that have been shown to influence joint venture performance: (1) control; (2) autonomy; (3) trust; and (4) cultural differences. While past research has also suggested other factors critical to joint venture success, the four factors that have been consistently identified as being important to joint venture performance were selected for study. Further, these four factors are meaningful to the conceptual framework proposed in this chapter as they potentially can have varying effects on joint venture performance. Chapter 8 builds on the existing literature by examining new data and providing new empirical insights into JV performance. Predicted positive relationships between performance expectations and dominant control of the JV, JV autonomy, and trust are supported by the data. The predicted negative relationship between performance expectations and perceived national culture differences is not supported, but the expected negative relationship between performance expectations and perceived corporate culture differences is partially supported.

Chapter 9 provides a summary of the study, identifies the limitations of the study and discusses avenues for further research.

## **1.6 Summary**

This chapter has provided the context of the study, identified some research gaps in the literature, provided a definition of JVs and outlined the chapters that follow. The following chapter provides a review of the theoretical perspectives regarding the management and the performance of IJVs.

**PAGINATION AS IN ORIGINAL**



## **2.1: CONTROL AND AUTONOMY OF INTERNATIONAL JOINT VENTURES**

### **2.1.1 Introduction**

The first section of the literature review, as shown in Figure 1.1 on page 4, is control and autonomy of international joint ventures. This section focuses on the nature and basis of control in alliances and the options available. It begins by discussing why control is such an important issue for strategic alliances. The attributes and dimensions of control are then identified. Distinctions are drawn between strategic and operational control. Equity share, bargaining power, and resource provision are seen to provide foundations for partner control in alliances. The literature on joint-ventures has emphasized the joint-venture as a "child" of dominant parent organizations without paying much attention to the internal processes of managing the joint-venture. In particular joint-ventures have the potential to develop strategy of their own and to make autonomous decisions. Arguments against and for IJV autonomy are presented. An explanatory model of joint-venture autonomy is discussed using resource-dependence and transaction cost theories. Finally, the mechanisms available to joint venture managers to influence and gain compliance from parent firms are addressed.

### **2.1.2 Control**

IJVs are commonly used by firms as a means of competing within multi-domestic or global competitive arenas (Porter and Fuller, 1986; Harrigan, 1988). Joint ventures provide the opportunity to share costs and risks, to acquire knowledge, to enter new markets, and to gain economies of scale or to rationalize operations (Contractor and Lorange, 1988). Despite their potential contributions, IJVs are not without their drawbacks. A critical determinant of IJV performance appears to be the control exercised by parents over a venture's activities (Rafii, 1978; Killing, 1983; Schaan, 1983). Although each partner must, by definition, relinquish some control over an IJV's activities, such a move is often accompanied by great consternation. A firm may avoid relinquishing control over some or all of its activities for reasons intimately related to its corporate strategy and objectives. Insufficient or ineffective control over an IJV can limit the parent firm's ability to coordinate its activities, to utilize efficiently its resources and



to implement effectively its strategy (Stopford and Wells, 1972; Lorange, et al., 1986; Anderson and Gatignon, 1986). Even if its products or processes are protected by patents or copyrights, a firm may nonetheless fear damaging "leakage" of unprotected innovations or know-how if shared with partners. Such disclosures, between the partners or to organizations outside the venture, may have serious effects on the competitive position of a parent or the IJV, possibly creating new competitors or otherwise limiting the IJV's or parent's overall efficiency (Parry, 1985; Rugman, 1985; Reich and Mankin, 1986).

Control refers to the process by which one entity influences, to varying degrees, the behaviour and output of another entity (Ouchi, 1977) through the use of power, authority (Etzioni, 1965) and a wide range of bureaucratic, cultural and informal mechanisms (Baliga and Jaeger, 1984). Control plays an important role in the capacity of a firm to achieve its goals. Typically, as organizations expand in size, there are concurrent increases in the complexity and differentiation of their structures (Lawrence and Lorsch, 1967), as well as in the risks of conflicts, opportunistic behaviour and competing goals between units. As a result, top management are confronted by the increasingly crucial need to monitor, coordinate and integrate the activities of the organization's business units, including IJVs (Child, 1977; Mintzberg, 1979).

Geringer and Hebert (1989) identify three dimensions of control in IJVs that in principle apply to all alliances. These are the extent of control exercised over a JV, the focus of that control, and the mechanisms by which control is exercised. IJV control is a complex and multidimensional concept. The three dimensions or parameters which comprise IJV control are not incompatible, but rather complementary and interdependent. They each examine a different aspect of IJV control. It appears necessary to consider all three dimensions of control in order to obtain a thorough understanding of the control phenomenon for IJVs. A further useful distinction is between two levels of control: strategic and operational.

### 2.1.3 Control Mechanisms

The first dimension of IJV control which researchers have examined is the *mechanisms* by which control may be exercised. Initial studies showed that firms frequently relied on majority ownership or on voting control to achieve effective management control of an IJV's activities (Tomlinson, 1970; Friedman and Beguin, 1971; Stopford and Wells, 1972). Although these studies showed that a majority position in equity or votes could ensure some degree of control over the venture, the same argument might not be valid for IJVs where the equity is equally divided between parents or in which a firm has only a minority participation role. This latter situation especially concerns firms that, over time, are unable to demand full or dominant ownership positions in many international investments.

In order to achieve effective managerial control, the parent companies of IJVs frequently rely upon a majority equity shareholding. There is evidence to indicate that equity share does in practice convey considerable control leverage (e.g. Tomlinson, 1970; Stopford and Wells, 1972; Lecraw, 1984; Child et al., 1997; Child, 2002). There can, however, be three limitations to relying on equity holding as a control mechanism. The first, and most obvious, is that it may not be available. Several forms of cooperation do not involve the creation of equity and the legal rights that accompany it, and even in an equity arrangement, majority equity share is not always an available option. The second is that the decisions of a JV's board of directors cannot be expected to reflect a majority equity position without any qualification. The third is that majority equity share may not be an effective means of control at the operational level where the protection of core knowledge and its effective use come into play.

Behrman (1970) as well as Friedman and Beguin (1971) suggested that control was not a strict and automatic consequence of ownership. According to these studies, a variety of mechanisms were available to firms for exercising effective IJV control: right of veto, representation in management bodies and special agreements related to either, technology (e.g., licensing) or management (e.g., management services). Companies might also be able to rely on their technical superiority and managerial skills as a means of



guaranteeing participation in the management of day-to-day operations. The nomination of one of a firm's managers as the IJV general manager (Rafii, 1978), as well as employment of different ownership structure arrangements (Gullander, 1976), could represent further means of exercising managerial control.

As Schaan (1988) points out, in the absence of safeguards built into the JV contract to protect minority interests, majority equity holding ultimately confers control over the issues which a board covers. The frequency with which the board meets and the scope of its agenda therefore bear upon its effectiveness as a control mechanism for the majority partner. The ability of minority partners to influence the management of the alliance will be enhanced if they appoint as their board representatives people who have a good understanding of the alliance's operational and strategic situation, good negotiating skills, and empathy for the partner's culture.

Where it is available as an option, majority equity ownership can provide for control over alliance policy, but it cannot guarantee operational control. According to Child et al. (2005), this is because considerable reliance often has to be placed upon another partner's managers and staff for the implementation of policy. Child et al. (2005) argue this is especially true of alliances whose operations are located in the other partner's country. Child et al. (2005) further note that the appointment of key alliance managers to run the operation or manage critical functions such as marketing or R&D can be an important means for a partner to maintain operational control. This is particularly true in cases where the partner is geographically remote or is a minority equity-holder. Formal contractual agreements can be made which set out certain rights to the partner relating to technology (e.g. licensing) or management (e.g. key appointments, management systems, and services).

Managers in parent companies can enhance their control over an alliance by structuring the relationships the alliance has with the parent company. These include the reporting relationships upwards from the alliance to a parent company, formalizing its planning and approval processes for capital budgeting and resource allocation, and laying down

procedures and routines for the alliance to follow. The provision of HRM programmes and systems for the alliance, for selection, training and development, career advancement, and compensation, can both help to control the quality of the alliance's staff and help to lay down the organizational culture (Frayne and Geringer, 1990).

In addition to these relatively formal methods to improve operational control over an alliance, a number of important informal mechanisms are also available. The partner company can assign an executive with sufficient time and resources both to monitor the alliance's progress and to support this with the necessary personal contact. Technical, advisory, and managerial inputs offered to an alliance on a continuing non-contractual basis, and accompanied by the maintenance of close relations between the parent and its alliance, can have a considerable potential for enhancing operational control.

Schaan (1983) distinguished negative from positive control mechanisms. Negative mechanisms are used by a parent company to stop an alliance from implementing certain activities or decisions. These include laying down a requirement for approval of specific decisions by the parent or the alliance board, particularly of items such as capital expenditure plans and budgets, and nominations of senior appointees. Schaan found that negative control depended principally on formal agreements approved by parents and an alliance's board of directors or management committee. Positive control was most often exercised through staffing, participation in the planning process, reporting relationships, and informal mechanisms.

The use of different mechanisms for controlling alliances is in practice likely to reflect a number of considerations. One is the extent to which the performance achieved in an area of activity carried out by the alliance can be assessed through direct measures. If an activity has a measurable output then control can be exercised through formal monitoring systems. If, on the other hand, the outputs or consequences of an alliance's activities are not amenable to such precise definition, as is the case with much HRM and marketing work, then it is appropriate to employ a mode of control that is primarily based on behavioural assessments of how the activity is being carried out (Ouchi, 1978). Control



in this case is likely to be more personal, less formal, and less frequently conducted. A second consideration is whether the way in which an alliance performs a certain activity has a direct bearing upon a parent company's overall international operations and standing. Third, a parent company's cultural preferences may well be expressed in the modes of control it prefers to install for an alliance in which it is involved.

#### **2.1.4 Extent of Control**

Most of the studies that have examined its extent have thought of control as being dependent upon the centralization or location of the decision-making process. A significant contribution of the locus of decision-making perspective to the JV literature was Geringer and Hebert's (1989) conceptualizing control as a continuous variable, rather than merely an absolute, dichotomous variable representing parents' exercise of either total control or no control over the IJV. However, despite this contribution, several scholars have criticized the locus of decision-making perspective for presenting a very limited and incomplete view of IJV control (Skinner, 1968; Brooke and Remmers, 1978). For example, means other than decision-making for exercising effective control over IJVs exist. Another criticism of this perspective is its implicit suggestion that parent firms seek to control the overall IJV, rather than targeting specific activities or processes perceived as crucial for achievement of the IJV's or the parents' strategic objectives (Geringer and Hebert, 1989).

Killing (1983) studied control in thirty-seven JVs from developed countries. Building in part on the work of Tomlinson (1970), Killing employed interviews of parent company executives and JV general managers to examine parent firms' influence on nine types of decisions: pricing policy, product design, production scheduling, manufacturing process, quality control, replacement of managers, sales targets, cost budgeting and capital expenditures. Killing classified each sample venture as either a dominant partner JV (where only one of the parents played a dominant role in decision-making), a shared management JV (where each parent played an active role in decisions), or an independent JV (where the JV general manager enjoyed extensive decision-making autonomy). Killing argued that JVs are intrinsically more difficult to manage because of the way they

are constituted, with a small number of powerful parents who are liable to disagree on many issues. He observed that since the presence of two (or more) parents constitutes the major source of management difficulties in JVs, dominant partner JVs, in which the venture's activities are dominated by a single parent, will be easier to manage and consequently more successful.

This argument is especially easy to interpret within a transaction cost analytical framework, where transaction costs are defined as the costs assumed by firms for the enforcement, monitoring and administration of a transaction (Williamson, 1981). According to Williamson (1981) firms tend to choose structural arrangements for transactions (markets or hierarchies) that minimize these costs. Viewed from this perspective, dominant control is a mechanism for reducing the costs associated with coordination, potential conflicts and disclosures and, consequently, for minimizing transaction costs and stabilizing the IJV.

The attempt to exercise more control than is necessary will not only incur additional direct costs; it could have negative consequences. As Schaan (1988: 5) put it, '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 alliances too much, this may inhibit the flexibility which the latter need in order to develop within their own competitive environments (Bleeke and Ernst, 1993). So, as Ohmae (1993: 42) argues, 'Managers must overcome the popular conception that total control increases chances of success.'

### **2.1.5 Focus of Control**

The realization that control in alliances does not have to be an all-or-nothing phenomenon has drawn attention to the possibility that parents may seek to focus their control on specific activities, decisions, or processes which they perceive to be crucial for the alliance's performance or for the achievement of their own strategic objectives (Geringer and Hebert, 1989). Explicitly defining control as "the process through which a



parent company ensures that the way a JV is managed conforms to its own interest" (Schaan 1983: 57), Schaan demonstrated that firms tended to seek control over specific "strategically important activities" rather than over the whole IJV. Schaan's finding that control also had a *focus* dimension, suggests that the exercise of effective control should emphasize selective control over those dimensions a parent perceives as critical, rather than attempting to control the entire range of the IJV's activities. This notion of selective control raises the prospect of a split control IJV, one in which a parent firm may exercise dominant control over only a few dimensions of the venture.

Geringer's (1988) study of ninety developed country JVs supported Schaan's finding that control had a focus dimension, in that parents may choose to exercise control over a relatively wide or narrow range of the JV's activities. The research conducted on Sino-foreign EJVs by Child et al. (1997) also found that foreign- and local-partner control was focused to some extent on those areas of JV activity in which they enjoyed competence advantages. However, in a developing country situation like China it is the foreign partners who normally bring most of the technology and expertise to alliances, and this leads to an overall imbalance between levels of foreign and Chinese control. The implication of the focus dimension to control is that it is effective for alliance parents to exercise control selectively over those activities and decisions the parent regards as critical. This selective approach becomes more sensible in view of the transaction costs of exercising control. The costs of managing some areas of alliance activity may be less for one partner, because of its acquired competence and familiarity in so doing, than for another partner.

#### **2.1.6 Levels of Control**

There are two levels of control in alliances: strategic control and operational control. Strategic control is control over the means and methods on which the whole conduct and future direction of an alliance depends. These include its capital, the form of assets in which the capital is embodied, and its strategic dispositions such as the markets or areas of need to be served, the communities and labour markets in which the organization is located, its external relations with suppliers, competing organizations, and government



agencies. The ability that partners have to exercise power within their alliances derives primarily from control at this strategic level.

The second level of control, operational control, is over the work done within an alliance. The ability to exercise control within an organization at the operational level is largely dependent on, and certainly facilitated by, control at the strategic level. The situation can therefore arise in which one alliance partner does not have the formal ultimate authority to determine its strategy, due to a minority ownership, but where in practice its technical or other expertise relevant to managing the alliance's operations can heavily influence strategic decision-making.

### **2.1.7 Foundations for Control**

The main theories on the subject of control identify three main factors that provide bases for control in strategic alliances. The first is a majority equity shareholding that provides the legal voting rights to determine the venture's policies through its board of directors unless specific restrictions are placed on those powers. The second factor has been identified as an alliance partner's bargaining power. This is assumed to derive from the availability of alternative partners, the importance of the alliance for the partner's own strategy, and the partner's commitment of resources to the alliance. A partner's ability or willingness to commit key resources to an alliance links to the third factor that is argued, it can provide a lever for control. This is the advantage a partner has over others in its ability to provide resources that are critical to the alliance's success (Pfeffer and Salancik, 1978). The provision of such resources may bring with it the justification for installing the partner's managerial and technical systems, and for the nomination of staff to run these, which are themselves further levers for exercising control.

Blodgett (1991) analyzed data on 279 two-party IJVs between USA and a variety of developed- and developing-country foreign partners. She concluded that the possession of valued technology appears to give considerable bargaining power to a JV partner leading to its acquisition of more equity share, particularly once that partner gains familiarity with the local market and environment and so relies less on its local associate

for such knowledge. On the other hand, host government persuasion could reverse the process, enabling the local partner to increase its equity ownership.

Killing (1983) examined thirty-seven IJVs, of which thirty-five were alliances between developed-country partners, and concluded that ownership and dominance are not necessarily related. As explanation, Killing offered the interpretation given by an experienced and successful JV general manager—namely, in any alliance that depends on the goodwill and cooperation of both partners for its success, the majority owner cannot force issues by taking them to a vote. A reasonable conclusion from this pioneering study would be that a majority equity share goes a long way towards providing the partner with a basis for dominant control over an IJV, but that it is also possible for a non-majority shareholder to develop a strong position through the other mechanisms of control.

Glaister (1995) examined the same issues in a study of control in ninety-four UK JVs with partners from Western Europe, USA and Japan. Glaister (1995) found that most of the non-equity cooperative alliances operated on a basis of shared control. Their management teams tended to be drawn equally from both partners, both partners tended to have the right to veto decisions made by the JV management, and management-control systems tended to be derived from both partners. In the case of the IJVs, those UK partners which owned at least a half share of them not only possessed the control advantages associated with being the majority equity-holder, but had also in most cases been able to build upon this advantage by deriving several other mechanisms of control.

Schaan's (1988) conclusion that a JV partner can secure control even while owning a minority equity share therefore appeared difficult to realize in this sample. Schaan's conclusions were drawn from JVs between companies from developed and developing countries. In this latter case, alliances depend quite heavily on the developed-country partner for technical and managerial skills, thus providing it with a substantial alternative basis for exercising control, even if it has a minority equity holding.



Yan and Gray (1994, 1996) conducted a qualitative study of partner bargaining power and control in four Sino-US equity manufacturing JVs and a complementary qualitative study in ninety such ventures. They assessed parent-company bargaining power during negotiations to form the JVs in terms of two dimensions: the alternatives each partner possessed when negotiating the venture and the strategic importance of the JV to each partner. Equity share and the relative provision by parent companies of non-capital resources were taken as measures of bargaining power during the operational life of the JV. Parent-company control over the JVs was assessed indirectly 'with reference to the composition of their boards of directors (as a measure of strategic control), the nomination of the general and deputy general managers and the decision-power distance between them (as a measure of control over operational issues), and similarities between JV and parent-company organizational structures and operational procedures (as a measure of structural control). Equity share strongly predicted the amount of control a parent company exercised over the IJV's strategy and, to a lesser extent, its level of operational control. The more that one parent company provided non-capital resources relative to the other(s), the greater tended to be the operational control it exercised.

There is support for Schaan's argument that the determination of a JV's management structure can provide alliance partners with a lever for control in addition to its ownership commitment. Because senior appointments are not entirely dependent on equity and other resource commitments, the implication is that they can to some extent be negotiated in their own right. If there is broad compatibility between the partners' objectives, then it should be possible for control, in the sense of influence, to be shared at the strategic level, even if one partner clearly enjoys greater operational competencies and should therefore exercise the greater control at that level. The proposition, in other words, is that cooperation between firms will usually work best if they each perceive that they have a sufficient voice over the strategic direction it will take. Within an agreed set of long-term goals and priorities, it may then be quite acceptable to all concerned for one partner to take the lead in controlling certain operational areas in which it clearly enjoys superior expertise, experience, or knowledge.



Selekler-Goksen and Uysal-Tezolmez (2007) evaluated the relative significances of different control mechanisms in creating control and analyzing the impact of control on performance. Investigation of the impact of different control mechanisms on strategic and operational control revealed that capital and non-capital resource contributions, and particularly the latter, emerge as significant sources of control. While equity ownership was positively associated with strategic control, board representation did not have a significant relationship with either control type. Rather than 'forcing' their partners through the legal rights that emerge from ownership or board representation, local parents seemed to rely more on their expertise and local connections to 'convince and lead' them. As far as the relationship between control and performance was observed, while strategic and operational control may have affected various financial returns to the local parents, they were not creating a difference in terms of goal actualization. Local parents were satisfied with the extent to which they have been able to actualize their objectives and this seemed to be the case even when they did not exercise high degrees of control.

To deal with the complexity of management control of joint ventures, Kamminga and Van der Meer Kooistra (2006) developed a new theoretical model which pays specific attention to the characteristics of the parents' contributions and the three dimensions of management control of joint ventures. A conclusion from the findings of the case studies was that the characteristics of the parents' contributions have an important impact on joint venture control. The cases gave support to the basic argument of the theoretical model that, due to the low level of information asymmetry, a parent can exercise tight control over the joint venture activities which relate to its own contributions. A more refined understanding of the exercised control requires more in-depth knowledge about the whole range of the parents' activities and expertise as well. When considering the theoretical model developed, the different joint venture types have different suitable control characteristics. According to Kamminga and Van der Meer Kooistra (2006), if there is a good match between joint venture type and control characteristics, all types may have a satisfactory performance.

Chalos and O'Connor (2004) tested the effects of partner equity ownership, knowledge dependence and asset specific investments on JV controls. Controls suggested by the joint venture literature have included expatriate staffing, socialization practices, delegated decision responsibilities, parent company communications and incentives. We examined the hypothesised control determinants from the perspective of both JV partners. Based on field visits and survey data, we found that partner equity ownership influenced expatriate staffing but none of the other control mechanisms. Relative to partner knowledge dependence and specific asset investments, bargaining dominance conferred by majority equity ownership appeared to offer little explanation of JV control mechanisms. We found knowledge dependency and asset specific transaction costs to be determinants of controls to varying degrees for each partner. Beamish and Delios (2001), and Dyer and Singh (1998), argue that intangible partner knowledge and specific asset contributions determine the control mechanisms of the venture. The different partner perceptions of controls that were found are an indication of perhaps unavoidable control misalignment between the partners. Partner differences in their perceptions of control mechanisms are determined largely by their respective motives. This represents an inherent source of instability within the JV (Child and Faulkner, 1998; Yan and Luo, 2001). The design of the JV control system serves to manage but not eliminate both collaborative and competitive forces that are simultaneously at work within the alliance.

Luo (2001) proposed and empirically confirmed several relationships between strategic determinants and equity sharing. First finding of the study was that an MNE's equity share in an IJV is positively associated with the proactiveness and futurity the MNE seeks from the venture. Second, an MNE's equity share in an IJV is positively associated with the extent to which the MNE needs to protect the proprietary knowledge it commits to the venture. Third, an MNE's equity share in an IJV is negatively associated with the extent to which the MNE needs a local partner's resources, skills, or knowledge. Fourth, an MNE's equity share is positively associated with the extent to which the MNE needs to maintain global integration of the IJV business. Lastly, an MNE's equity share is positively related to the extent to which it pursues long-term economic benefits, but is negatively associated with the extent to which it pursues market entry.



### 2.1.8 Autonomy

The issue of how much autonomy, if any, to grant an international joint venture is currently a major issue faced by both researchers and practitioners (Newburry and Zeira, 1999: 263). This entity is subject to the joint control of its parent firms, each of which is economically and legally independent of the other (Shenkar and Zeira, 1987: 547). As a starting point in examining the autonomy literature, it might be helpful to briefly distinguish between two dimensions of IJV management which are interrelated and often confused - autonomy and control. *Autonomy* refers to an IJV manager's ability to perform tasks independently of its parent companies. This is an informal measure which is not based on formal authority, but rather on ability (Newburry and Zeira, 1999). Hill and Hellriegel (1994: 596) defined autonomy in a more formal manner as 'the degree of decision making latitude *allowed* to the joint venture management by the partners'.

A key intervening concept in the distinction between formal definitions of autonomy and control is authority (Newburry and Zeira, 1999). Formal control refers to the authority that IJV parents have over their IJV, which they allocate between themselves. Formal autonomy, by contrast, refers to authority that the IJV receives from the parents. The distinction between control and autonomy also becomes evident when examining how these two concepts have been previously measured. Control studies have generally concentrated on obtaining data from parent-level sources. Autonomy studies have usually utilized IJV level sources, concentrating on IJVs' abilities to act independently.

Lyles and Reger (1993: 400) concluded that 'a JV that faces united parents may be less successful in gaining autonomy'. As noted by Harrigan (1986) and Hoon-Halbauer (1994), IJVs inherently involve a conflict between an IJV's need for autonomy and its parents' needs for co-ordination. One reason why this issue has been difficult to resolve is that autonomy can be granted for many activities ranging from daily business functions to long-term strategic planning. Using Bartlett's (1986) integration-responsiveness terminology, it may be the case that certain activities are more important to achieving global integration and other activities might be more important to achieving national



responsiveness. Therefore, the issue of how much autonomy to grant an IJV might be resolved by developing a hierarchy of autonomy situations.

Buchel et al. (1998: 98–99) conclude that the optimal level of autonomy is that at which objectives can be met while total costs are kept to a minimum. Buchel et al. (1998: 100) note that the pattern of control and autonomy depends on two variables: strategic interdependence and environmental uncertainty. Usually, the greater the strategic interdependence, i.e. the dependence of two organizations on each other's inputs and outputs, the more control the partners exert over the IJV. The greater the environmental uncertainty, the higher the level of autonomy needed by the IJV to make independent adjustments to environmental changes.

Glaister et al. (2003) examined the concept of autonomy in decision-making in a sample of UK-European equity joint ventures. The perspective from which an IJV should be viewed raises a number of concerns, largely because there are a number of different viewpoints on the venture, including the parent firms and the IJV management (assuming that the venture has a separate workforce, which is not necessarily the case). This means that there might be different views on aspects of autonomy, which may vary between partners and between partners and IJV management (Glaister et al., 2003). It is clear that autonomy is a concept that is capable of a number of interpretations based on managers' differing conceptual understanding partially influenced by cultural differences. Glaister et al. (2003) note that a perceptual measure of autonomy across the IJV system provides information regarding the extent to which the IJV is viewed as autonomous by the respective parents and the IJV management.

The findings of Glaister et al.'s (2003) study show that there is a spectrum of autonomy across decision-making areas. IJV managers have a relatively high degree of operational autonomy but relatively low levels of strategic autonomy in decision-making. The findings further show that operational decision making by IJV managers takes place within the context of a set of constraints established by the partners and decided through the board of the IJV. Provided that IJV managers' decisions are within the acceptable

boundaries of the business plan then partners allow IJV managers decision-making autonomy. As long as IJV managers provide the necessary information through the board and they act in the way they are expected, they are allowed a relatively high degree of operational autonomy. It is necessary, of course, for partners to clearly communicate their expectations to IJV managers, and for IJV managers to be aware of the partners' goals for the IJV. The business plan is not necessarily 'handed down' to the IJV management from the partners, but may be developed by the IJV management and 'sold' to the partners.

While there has been some attempt in the literature to develop a measure of IJV autonomy (e.g. Newburry and Zeira, 1999), in general, studies have not relied on perceptual measures of autonomy. This is in contrast with the literature relating to IJV performance where concerns over the ability of financial and objective measures to effectively capture alliance performance have led several researchers to turn to perceptual measures of a parent's satisfaction with alliance performance (Beamish, 1985; Dussauge and Garrette, 1995; Inkpen and Birkenshaw, 1994; Killing, 1983; Lyles and Baird, 1994; Schaan, 1983).

### **2.1.9 Arguments against IJV Autonomy**

As noted by Lyles and Reger (1993), there appears to be a general assumption that IJVs should not have complete autonomy in their actions. Harrigan's (1985: 334) research revealed that too much autonomy may result in IJV termination when the IJV evolves quicker than expected into a strong organization with the ability to stand alone. At this point, the IJV may have become too strong for its parents to manage effectively, and accordingly the parents may no longer gain the benefits for which the IJV was pursued. Parent company involvement in IJV management also allows a parent to protect its investment and its technology, as well as guard against their partners' hidden agendas (Daniels and Magill, 1993). By limiting an IJV's autonomy, a parent company can guide the policy and actions of its IJV as well as monitor, coordinate and integrate the IJV's activities with those of the parent (Geringer, 1993). It also allows a parent an easier route to implement its own hidden agendas.



Child and Markoczy (1993) found that local managers in China and Hungary were reluctant to make decisions and to accept responsibility for their actions, largely due to constraints, expectations and the reward structure placed upon them by their respective systems of industrial governance. These managers were quick to shift blame to their foreign partners. Bangert and Poor (1995), after studying 165 small and medium-sized IJVs in Hungary, noted that parent company involvement in decision making may be perceived by Hungarian IJV managers as one method of avoiding risk. Granting autonomy to IJV managers means that they are expected to formulate and/or implement policies in uncertain environments, namely, that they are forced to take risks. In high uncertainty avoidance cultures, IJV managers may perceive that granting them the autonomy to make important decisions without parent company close guidance enables their parent companies to blame them for failure instead of assigning blame to the parent companies.

Related to the above arguments, Beamish (1988) found that IJVs operating in less developed countries generally received less autonomy than those in developed countries due in part to a lack of managerial depth within the country. Thus, an argument for not granting autonomy might be made when local management is believed to be incapable by the IJV's parent companies.

#### **2.1.10 Arguments for IJV Autonomy**

Lyles and Reger (1993: 399) concluded that “instead of accepting the premise that JVs should be controlled to the same extent as wholly-owned subsidiaries or the assumption that control should be divided among parent firms, more fruitful research may begin with the notion that significant autonomy should rest with the JV management”. In support of granting IJV autonomy, Killing (1983) describes a failure cycle “where poor IJV performance leads to lower IJV autonomy, subsequently leading to inefficient decisions and even poorer IJV performance”. Harrigan (1985: 335) found that “experienced parents gave their children more autonomy in operating decisions ... than did first-time parents”.



The previous problems are further complicated when decisions regarding a venture must be coordinated among multiple parent companies. Killing (1983: 84) noted that 'the potential for fighting and confusion and political intrigue increases enormously when two parents are involved' in the management of their IJVs. Zeira and Shenkar's (1990) findings indicate that when the goals of IJV parents differ, this causes a state of confusion within the IJV, especially when one parent's hidden agenda of disarming another parent becomes known to the IJV managerial team. As noted by Hoon-Halbauer (1994) and Beamish (1988), general managers of JVs are most likely to be loyal to their JV above being loyal to their parents. Hence, incompatibility in goals can be managed by autonomy because local management generally knows what works best in local circumstances, and acts to initiate programmes which are in the best interests of the IJV.

Prahalad and Doz (1987) stated that usually headquarters' managers lack an understanding of the skills and limitations involved in operating in environments dissimilar to that of the parent companies and hence headquarters' executives should be aware of this shortcoming. This suggests that the higher the environmental dissimilarities, the higher the recommended venture autonomy. Hoon-Halbauer (1994) and Harrigan (1986) added that when competition in a market is volatile, flexibility and autonomy are essential. Bleeke and Ernst (1991) concluded that autonomy is necessary to allow IJVs the freedom of action required to accomplish successfully their goals because of confusing directions given by multiple parents and a need to be able to adapt to a changing environment.

Bleeke and Ernst (1993: 25) concluded that 'a partnership is best able to resolve or avoid conflicts when it has its own management team and a strong board with operational decision-making authority'. They also found that allowing an IJV flexibility in formulating its strategies and procedures enables it to quickly analyse opportunities and threats within its host country environment. Bleeke and Ernst (1991: 132) found that 'operating decisions are best made by managers whose sole focus is the JV'. Cauley de la Sierra (1995: 92) concluded that "if the executives running a venture are left alone, they will take a direct - sometimes even personal - stake in working hard and building a

successful business". Hence, parent companies are advised to equip their ventures with all the resources needed to operate as an independent entity. Moreover, locating a JV in a third country gives the venture the best chance of meeting its objectives and developing into a self-sustaining entity.

As noted by Killing (1983) and Hoon-Halbauer (1994), the parent assuming the dominant position should be the one which possesses the capabilities necessary to effectively run the IJV. It is suggested here that with the comfort of their own personnel in charge, dominant IJV parents will give their IJV managers the ability to pursue actions autonomously. Combined with a clear sense of direction (due to the managers' close ties to the parent company), it is thus proposed that these IJVs will be more effective. This seems to provide benefits to both the parent company and the IJV. For the parent company, it allows a feeling of ease that the venture will be run in a manner consistent with, the parent company's objectives. For the IJV, it provides the managerial team with the freedom and flexibility to adapt to local conditions without headquarters interference.

#### **2.1.11 Explanations for Autonomy**

One explanatory model for the degree of autonomy of joint-ventures comes from resource-dependence theory (Pfeffer and Salancik, 1978). This theory states that the power of one organization to influence decision-making in another organization depends upon the extent to which that other organization is dependent upon the first for resources (Butler and Sohod, 1995). The joint-venture is dependent upon the parents, usually for finance, perhaps also for other inputs, or for providing access to markets for products. Hence, the pattern of ownership and the resources the joint-venture derives from the parents will give the power base to the parents by which they can exert control over their creation. However, a joint-venture may be able to develop some markets for its products independent of the parents.

The greater the dependence of the joint-venture upon the parents the less the autonomy of the joint-venture is expected to be and the greater the influence of the parents over decision-making (Moxon et al., 1988). This influence may vary across different decision



topics or issues, but the parent companies are also dependent upon the joint-venture for certain outputs whether these be production of finished products, intermediate components, research and development, or other factors. Therefore the net dependence of the parents over the joint-venture needs to be considered in order to establish the autonomy of the joint-venture over a range of decisions.

Transaction costs theory gives a different perspective upon the management of joint-ventures. Buckley and Casson (1988) identify three aspects of transaction costs theory that are relevant to consideration of joint-venture formation: (1) the parents gain benefits derived from internalizing a market in one or more intermediate goods or services between the joint-venture and the parents; (2) there may be technical indivisibilities around which the joint-venture is formed; or (3) there are disincentives to a merger between the parents.

Underlying the transactions costs approach is a theory about the managerial cost of making the necessary decisions to maintain control over a joint-venture. The parent companies expect to receive a return to their investment from the joint-venture but they have the problem of managing the related transactions. According to this theory, transactions are more costly to manage as "information impactedness" and "bounded-rationality" increase (Williamson, 1975). Information impactedness refers to an asymmetry in information concerning a transaction whereby one partner is better informed than another about conditions surrounding the transaction and thus the ability of the first partner to control the second is increased. If one partner has greater information, the other partner has a condition of bounded-rationality (March and Simon, 1958); this other partner therefore lacks the necessary information to be able to make well informed decisions as regards the partnership.

Williamson (1985) concentrates upon the nature of the contract between the partners to a transaction. When an asset is specific it means that it is relatively homogeneous and can be clearly stated in a contract thereby allowing market transactions to be more easily governed. Hence, in the case of a joint-venture, a specific contract would require a



number of conditions, in particular, a technology which is reliable and relatively unchanging, and agreement about the goals of the venture between the parents. When the transaction between the joint-venture and its parents can be clearly specified it now becomes easier for the parents to delegate autonomy to the joint venture.

When the objectives of the joint-venture are ambiguous and there is lack of clarity over what the joint-venture is doing greater managerial effort is needed on the part of the partners and hence less decision-making autonomy for the joint-venture. In Williamson's terms this means greater internalization of decision-making and a shift towards a more intensive form of hierarchical organization. The ability to write a precise contract clearly stating objectives makes management easier and, providing the objectives are reached, permits less direct involvement in decision-making and the intermediate joint-venture becomes feasible. Ambiguity is also likely to be increased by a high degree of change taking place in the operations and its associated technology.

Combining the two explanatory models, the condition of minimum joint-venture autonomy would therefore tend to appear under high resource-dependence and high transaction ambiguity, while maximum autonomy would appear under low resource-dependence and high transaction specificity. The achievement of the IJV's aims depends on linking the IJV closely with the parents to achieve the requisite internal market and resource links whilst allowing a certain degree of decision-making freedom to the IJV managers who are closest to its environment and internal capabilities.

#### **2.1.12 Methods to Gain JV Autonomy**

Drawing on both the upward influence in unified structures and the external control literatures, Lyles and Reger (1993) identified five distinct categories that capture the methods available to JV managers to gain autonomy. These mechanisms originate both from the position of JV managers in social and organizational networks and from the influence potential of the JV as an organization. Thus, both individual and organizational levels of analysis are essential to encompass the variety of influence means suggested by the literature. In a JV relationship the parents, through their ownership stakes, possess

legitimate authority over the JV. In addition, most new JVs are dependent upon their parent firms for a variety of resources including capital, technology, marketing expertise, and managerial talent. Therefore, parent firm managers are expected to possess greater power *vis-à-vis* JV managers, especially in new JVs.

The first two categories, formal and informal relationships with parent firms, constitute direct upward influence techniques. Formal relationships with parent firms encompass structural reporting lines and dependence on parental resources. Since formal, legitimate mechanisms for resolving conflicts between the JV and its parents do not exist, JV managers can influence their parent firms through informal means. For example, it can play one parent against the others. Establishing trust, applying pressure, using informal contacts, and agenda setting constitute informal methods for upward influence (Jaeger and Baliga, 1985; Mowday, 1978; Schilit and Locke, 1982). Lateral influence is expected to be more effective than upward influence since legitimate authority does not have to be overcome. In IJVs, lateral relations may exist among parent firms, between parents and their stakeholders, and between parents and the JV's stakeholders. IJV managers can seek support from outsiders by influencing, coalescing, and gaining information from stakeholders such as customers, suppliers, licensors, competitors and government (Harrigan, 1985; MacMillan and Jones, 1986; Pfeffer and Salancik, 1978; Porter, 1980). All of these actions can increase JV managers' ability to negotiate with and influence their parents.

Thirdly, structural independence including independent facilities, internal functional areas, separate information systems and remote physical location allows the IJV to use its physical segregation to achieve decision-making autonomy. Structural independence reduces the IJV's dependency upon the parents for resources and, thus, provides the parents with less power over the IJV (Pfeffer and Salancik, 1978). Harrigan (1985) suggests that strategic differentiation in terms of products, markets, suppliers, and technology also will increase decision-making autonomy. Given the increased uncertainty and ambiguity surrounding control issues in joint ventures, IJVs provide greater opportunity than unified structures for IJV managers to influence decisions



(Salancik and Pfeffer, 1977). Thus, IJV characteristics influence the ability of the parent to control the JV (Harrigan, 1985; Lyles, 1988, 1991; Ouchi, 1977). Finally, the personal characteristics of IJV managers affect the ability of JVs to influence parent firms (Fiol, 1986; Lyles, 1991). It is expected that personal characteristics of the manager will be important determinants of IJV autonomy.

JV managers utilize a variety of individual level techniques to influence the decisions made, such as personal interactions with parent firm managers and gaining co-operation from those outside the formal authority structure. Influence attempts through these relationships may be relatively easy due to the power equivalency expected in lateral relationships; that is, JV managers may be more likely to achieve greater co-operation from other stakeholders than from parents who are in direct upward relationships (Lyles and Reger, 1993). If these stakeholders are dependent upon the JV for products or services, they are more likely to aid it than parent firms would. This is because outside stakeholders may benefit from the JV's increased independence, but they do not stand to lose control as the parents might.

### **2.1.13 Summary**

As corporations increasingly utilize alliances such as IJVs as tools for attaining strategic objectives, the issue of IJV control is experiencing a corresponding increase in attention from academics and practitioners alike. Yet, understanding of IJV management lags behind the demands of practice. Although a wide variety of control mechanisms have been identified, managers have received minimal guidance about when and how to use them, as well as about the potential tradeoffs between alternative control options. Review of the literature leaves no doubt that control is a crucial organizational process, for IJVs as well as for any other organizational form. It is also a complex and multidimensional concept. This feature may help explain why researchers have used different approaches to study control in IJVs. These differences are particularly evident in the conceptualization and operationalization of control.



There are three dimensions of control in IJVs that in principle apply to all alliances. These are the extent of control exercised over a JV, the focus of that control, and the mechanisms by which control is exercised. The use of different mechanisms for controlling alliances is in practice likely to reflect a number of considerations. The realization that control in alliances does not have to be an all-or-nothing phenomenon has drawn attention to the possibility that parents may seek to focus their control on specific activities, decisions, or processes which they perceive to be crucial for the alliance's performance or for the achievement of their own strategic objectives. There is relatively little evidence on control in strategic alliances, or on the factors that provide for control, despite its importance for partner companies. Indeed, among the available research studies, there is also the complication that some have examined control in alliances between partners from developed countries, while others have investigated control in alliances between developed and developing country partners.

The issue of how much autonomy, if any, to grant an international joint venture is currently a major issue faced by both researchers and practitioners. One reason why this issue has been difficult to resolve is that autonomy can be granted for many activities ranging from daily business functions to long-term strategic planning. Autonomy is necessary to allow IJVs the freedom of action required to accomplish successfully their goals because of confusing directions given by multiple parents and a need to be able to adapt to a changing environment. When competition in a market is volatile, flexibility and autonomy are essential. Allowing an IJV flexibility in formulating its strategies and procedures enables it to quickly analyse opportunities and threats within its host country environment.

An argument for not granting autonomy might be made when local management is believed to be incapable by the IJV's parent companies. Too much autonomy may result in IJV termination when the IJV evolves more quickly than expected into a strong organization with the ability to stand alone. IJV managers may perceive that granting them the autonomy to make important decisions without parent company close guidance

enables their parent companies to blame them for failure instead of assigning blame to the parent companies.

According to one explanatory model for IJV autonomy, the resource-dependence theory, the greater the dependence of the joint-venture upon the parents the less the autonomy of the joint-venture is expected to be and the greater the influence of the parents over decision-making. Underlying the transactions costs approach is a theory about the managerial cost of making the necessary decisions to maintain control over a joint-venture. When the objectives of the joint-venture are ambiguous and there is lack of clarity over what the joint-venture is doing greater managerial effort is needed on the part of the partners and hence less decision-making autonomy for the joint-venture. Combining the two explanatory models, the condition of minimum joint-venture autonomy would therefore tend to appear under high resource-dependence and high transaction ambiguity, while maximum autonomy would appear under low resource-dependence and high transaction specificity.

Research on the nature and meaning of IJV autonomy is a relatively neglected area in the examination of IJV activity. IJV autonomy is a rather fuzzy concept unless the distinction is drawn between strategic autonomy and operational autonomy. Giving an IJV management enough autonomy to genuinely run an independent business, but at the same time making sure that major strategic decisions are taken by equity partners, is a delicate task.

This section, the first section of the literature review, has reviewed the literature on control and autonomy of international joint ventures. The next section of the literature review considers cultural differences between joint venture partners.



## **2.2: CULTURAL DIFFERENCES BETWEEN JOINT VENTURE PARTNERS**

### **2.2.1 Introduction**

Cultural differences between joint venture partners is the second section of the literature review, as shown in Figure 1.1 on page 4. This section examines the ways in which culture can impact upon the implementation of cooperative strategies. It shows how culture can create barriers to collaboration between organizations and yet how, at the same time, the knowledge embodied in cultures can provide a valuable resource for an alliance. Three commonly used measures of cultural distance- Hofstede's data dimensions of national culture, Kogut-Singh data index of cultural distance and Ronen and Shenkar's data culture clusters- are summarised. The following points are addressed: why culture is relevant for cooperative strategy, what specific consequences culture can have and what options there are for managing cultural diversity within alliances. The effect of dimensions of national and organizational culture differences on international joint venture (IJV) performance is examined. Six core organizational practices that differentiate organizations in their management orientation suggested by Hofstede are described. The influence of cultural distance on control of the joint venture is examined. Using Hofstede's five national culture dimensions, the fit between management practices and national culture are examined. Finally, the limitations of Hofstede's framework are addressed.

### **2.2.2 Culture**

Cultural distance has received a great deal of attention in the international business literature (Kogut and Singh, 1988; Barkema et al., 1997; Park and Ungson, 1997; Morosini et al., 1998; O'Grady and Lane, 1996; Evans and Mavondo, 2002). There is no one single definition which encapsulates the term "culture" wholly. It has been referred to as a set of shared experiences, understandings, and meanings among members of a group, an organization, a community, or a nation (Hofstede and Hofstede, 2005; Mead, 1998). Culture is also that complex whole which includes knowledge, beliefs, arts, morals, customs, and any other capabilities and habits acquired by men and women as members of a society (Low and Leong, 2000). Culture is an ingrained behavioural



influence which affects the way collective groups approach, evaluate, and negotiate opportunities for international business. Different cultures have different models of management and different ideas of the nature of organizations (Hofstede and Hofstede, 2005). Culture has been identified as a key factor in explaining foreign market attractiveness, expansion patterns, the degree of adaptation of marketing and retailing strategies, modes of entry, and organizational performance (Evans, 2000). When two or more companies start working together, their respective cultures come into contact: the local employee must deal with a different, sometimes unknown, foreign cultural environment, and likewise for the expatriate employee. The cultures represented in the international joint venture may collide and produce culture shock, disrupting the entire operation of the newly-formed company.

### **2.2.3 Culture Measures**

#### ***Hofstede's dimensions of national culture***

Using survey research carried out between 1967 and 1978 within foreign subsidiaries of IBM, provided by 88000 respondents from 66 countries, Hofstede (1980) developed indices to measure four dimensions of national culture: power distance, uncertainty avoidance, masculinity/femininity, and individualism. Four dimensions of national culture (Hofstede, 1980) are used to operationalise cultural differences between the IJV partners: power distance, uncertainty avoidance, individualism and masculinity. The power distance dimension explains the acceptance of unequal power distribution among parties. The uncertainty avoidance dimension regards the extent to which people are threatened under uncertain circumstances.

The individualism-collectivism dimension refers to the tendency to put more values on individual interest or group interest. Individual cultures are loosely coupled. Individuals are expected to look out for themselves and their immediate families. Status derives from individual accomplishment. Collective cultures rely on membership in groups - social classes, communities, religions, or extended families - for identity and status. People are protected by the group and are expected to act in the group's best interests. According to Newman and Nollen (1996), the Anglo countries of Britain, Australia, New Zealand,

Ireland, Canada, and the U.S. are very individualistic cultures. East Asian countries such as Taiwan, Korea, Singapore, and Hong Kong are very collective cultures.

Lastly, the masculinity-femininity dimension refers to the tendency of whether economic success based on accumulation of material wealth is valued or whether interpersonal sensitivity based on concern for the welfare of others is valued. Masculine cultures are characterized by doing and acquiring rather than thinking and observing, similar to the "orientation toward activity" dimension identified by Kluckhohn and Strodtbeck (1961). Masculine countries include Japan, the U.S. and the Germanic countries. Feminine countries are typified by Nordic countries such as Denmark, Norway and Sweden.

Concerned that the distinction in four dimensions might be the result of a questionnaire developed by a biased "western mindset," Hofstede and Bond (1988) subsequently used a questionnaire developed by Chinese scientists. They found a unique fifth dimension that they labelled "Confucian dynamism," which captures the extent to which people have a future-oriented perspective rather than a focus on the present. Hofstede (1991) later renamed this dimension "long-term orientation." People in societies characterized by a long-term orientation know many truths and are dynamic in their thinking (Hofstede and Bond, 1988). Relationships are largely ordered on the basis of status.

Culture is often defined as a system of shared values that serves two critical functions: 1) to solve problems of external adaptation and 2) to solve problems of internal integration (Schein, 1985; Schneider, 1989). External adaptation is associated with defining the objectives and the strategy of the organization, and how opportunities and threats in the environment are perceived and responded to. These perceptions and responses are influenced by attitudes regarding uncertainty avoidance and long-term orientation (Schneider, 1989; Schneider and De Meyer, 1991). Internal integration, in contrast, bears on the firm's relationship with its employees which, in turn, is influenced by attitudes towards power distance, individualism and masculinity (Schneider, 1989; Schneider and De Meyer, 1991).



Hofstede (1980) clustered the countries in his study on the basis of their placement on the four indices. Hofstede provides four defining factors of culture (nationality) backed both by theory and empirical evidence. More importantly these four defining factors are continuous variables, whereas culture and nationality are discrete variables. Differences in national culture are calculated by the absolute difference along each dimension i.e.  $|NI_1 - NI_2|$  where  $NI_1$  and  $NI_2$  represent respective national culture indices of the partners from Hofstede's (1997) study.

A key assumption of Hofstede's work, for instance, Hofstede (1980, 1991) is that values - the core of national culture - are stable constructs and have been present in the peoples from different nations for a long period of time (Schein, 1985). The research resulting in Hofstede's four dimensions took place almost three decades ago. Although these dimensions have been validated since (Sondergaard, 1994), various researchers have endorsed the popular notion that cultures are converging (e.g. Ohmae, 1985; Levitt, 1983; O'Reilly, 1991) and have cast doubt on the explanatory power of Hofstede's dimensions in later periods (Adler et al., 1986). However, Hofstede's (1980, 1991) work suggests that such changes concern convergences in so-called practices, superficial appearances of culture; they do not necessarily signal a convergence in the values embedded in national cultures. Thus, Hofstede's work suggests that differences between national cultures are still relevant.

### ***Kogut-Singh index of cultural distance***

Using Hofstede's indexes, Kogut and Singh (1988) developed a composite index based on the deviation along each of the four cultural dimensions- power distance, uncertainty avoidance, masculinity/femininity and individualism- of each country from the United States ranking. They found that the mode of foreign direct investment is influenced by the cultural distance between the home country of the expanding firm and the host country. Their index of cultural distance has subsequently been used in many other studies, including Erramilli (1991), Benito and Gripsrud (1992), Loree and Guisinger (1995), and Barkema et al. (1996). However, Shenkar and Zeira (1992) have argued that this unidimensional index may oversimplify the rich and complex concept of cultural



distance. An aggregate index to measure national cultural distance (NCD) following the Kogut and Singh's (1988) formula:

$$NCD_j: \sum \{(I_{ij} - I_{id})^2 / V_i\} / 4$$

where  $I_{ij}$  stands for the index for the  $i^{\text{th}}$  cultural dimension and  $j^{\text{th}}$  country,  $V_i$  is the variance of the index of the  $i^{\text{th}}$  dimension,  $d$  indicates the country of study and  $NCD_j$  is national cultural distance of  $j^{\text{th}}$  country from country of study.

### *Culture clusters*

Considering the cultural diversity of other nationalities, Ronen and Shenkar (1985) synthesized country clusters to group non-Japanese cross-border joint ventures on the basis of the partners' cultural similarity. Ronen and Shenkar (1985) synthesized the results of eight studies and used individual-level data on attitudes and values to cluster various countries according to cultural similarity. Examples of these attitudes and values include those toward achievement, practical mindedness, sharing information, taking initiative, democratic leadership styles and commitment to an organization. Ronen and Shenkar developed eight clusters: Anglo, Germanic, Nordic, Latin European, Latin American, Near East, Far East and Arabic.

The use of national units for clustering is logical because national boundaries delineate the legal, political, and social environments within which organizations and workers operate. Yet, to understand why certain countries cluster, one should look across national boundaries for the dimensions underlying the clusters. The principal dimensions underlying the country clusters are geography, language and religion. It is apparent that countries tend to group together geographically. Indeed, the names of the clusters describe geographic areas. There is one striking exception, however, to this geographical grouping: the Anglo-American cluster, which contains countries from all five continents. A language contains meanings and values that are likely to influence individuals' work goals. For the most part, the countries in each cluster share a language or language group. Religious beliefs are associated with certain values and norms, and some support for the correlation of those norms with employee work goals has been found (Ajiferuke and Boddewyn, 1970). Most groupings in the clusters have religion in common.

It is apparent that these three dimensions geography, language, and religion- are not independent. In fact, it is likely (though not certain) that countries with one of these elements in common will share all three. Another dimension, on which countries cluster, though less likely to be related to the previous three, is technological development. According to Webber (1969), the level of technology and the corresponding level of development will affect managerial style and attitudes. Haire et al. (1966) show the three developing countries of Argentina, Chile, and India clustered together despite cultural differences.

#### **2.2.4 Culture's Relevance to Cooperation**

Cooperative strategies bring together people from different organizations into a working relationship. The organizations from which they come will each have developed their own distinctive cultures. These cultures embody shared attitudes and norms of behaviour. They encourage people to regard their organization as different from and often superior to other organizations and therefore to hold onto their ways of doing things, particularly when confronted with those of a new and unfamiliar partner. If the collaborating organizations originate from different countries, their members will have a sense of belonging to distinct national cultures as well and the sense of difference between partners' managers and staff will be exaggerated as a result. When different cultures are brought together through a strategic alliance, they can generate barriers to cooperation while at the same time offering the potential for each partner to learn from the positive aspects of the other's ways of thinking and acting. However, the mutual learning cannot take place until the barriers are removed.

Child and Faulkner (1998) suggest that cultural differences can pose a challenge for cooperative strategy in three main respects. First, the degree of difference between the cultures of prospective partner organisations may affect the cooperative form in which they are willing to engage. Second, a large cultural distance between prospective alliance partners is likely to protract the process of forming an agreement to cooperate. Third, cultural differences can give rise to operational problems.



It has been widely assumed that the degree of distance between the culture to which a firm is accustomed and that of the environment in which it is planning to invest will influence the kind of organisational arrangement it is willing to accept for that investment. However, there are conflicting arguments and inconclusive evidence concerning the effect that cultural distance will have (Shenkar, 2001). A high cultural distance is likely to generate additional risk and uncertainty in the perceptions of the investing company's decision makers, especially if the other culture is unfamiliar to them.

Part of the risk lies in the need, in a culturally different environment, to depend on agents and partners whom it does not know well. It is therefore argued that a firm will seek to compensate for this risk by exercising greater control in its dealings with foreign agents and partners. If the presence of greater cultural distance between prospective alliance partners is associated with low levels of trust between them, they might be encouraged to seek managerial as well as legal safeguards for their crucial interests (Shane, 1994). This implies that in cases of high cultural distance the main investor or provider of key resources is likely to prefer direct foreign investment rather than licensing and in forming an IJV to hold a majority equity share that provides the right to managerial control.

The counter argument is that when there is high cultural distance, a firm may prefer to rely on a local partner to contribute local knowledge and it will therefore be willing to opt for limited control over their cooperative venture. This may be a particularly important consideration in the early stages of entering an unfamiliar environment, such as that of many emerging economies, in which many parameters of doing business are subject to local negotiation (Beamish, 1988). Also insofar as limited control is associated with committing limited investment, this alternative will reduce the company's financial exposure in an unfamiliar environment. The inconclusive nature of the evidence on this issue probably reflects complexities that require further investigation. For example, high control may be more efficient when the firm entering a new market through a cooperative alliance enjoys a specific advantage that its partner cannot easily imitate or apply



(Anderson and Gatignon, 1986). A firm that is already experienced in working within another culture may feel more confident about assuming a dominant control over the management of an alliance.

A large cultural distance between prospective partners is likely to prolong the process of forming an agreement to cooperate. Because cultural differences increase the chances of mutual misunderstanding and even personal offence, they have to be transcended before a basis for trust can be established. And without mutual acceptance and trust, the risk of cheating and non-compliance with contacts is greater (Williamson, 1979). Particularly if the representatives and negotiators on behalf of the prospective partners are not familiar with each other's organizational and national cultures, the transcending of their cultural differences can come about only through a time consuming process of recognising the other cultures, demonstrating mutual tolerance and then finding ways of reconciling the differences. Additionally, the partner who is not familiar with the country context in which the alliance is to operate has to invest further time and effort in finding out how the cultural norms and institutional practices of the host country are likely to effect its calculations and plans for making the alliance into a profitable operation.

Thirdly, cultural differences can lead to a good many operational problems. At worst, they can lead to a breakdown in the working relations between partners' managers and staff. If the partners' cultures convey conflicting priorities and norms of behaviour, they will heighten the sense of separateness between staff seconded or recruited by the partners to work together. This sense of being different is bound to be present anyway in the early stages of cooperation. Alliances are communication intensive and relationship dependent and they therefore cannot function well if they are internally divided by substantial cultural barriers. If cultural distance is not reduced or at least channelled into a form that avoids conflict, it is likely to give rise to serious breakdowns in communication of information and integration within the alliance.

### **2.2.5 Managing Cultural Diversity**

When organizations decide to cooperate, they often bring diverse cultures to their alliance. The more that the cultures of cooperative partners diverge, the more of a challenge it becomes to achieve a fit between them. Fit refers to the extent to which different cultures are brought into a workable relationship that permits the alliance to operate without undue misunderstanding and tension between the partners or between the staff they attach to the alliance (Child and Faulkner, 1998). Cultures that do not match, in the sense that they are different, may or may not be fitted together depending on the intentions, goodwill and skills of the members of the different cultures. A poor cultural fit is likely to breed suspicion and act as a barrier to the building of mutual trust. If actions or events damage trust between the partners, this will rekindle their sense of cultural difference and of having a separate rather than a common identity.

In the case of international joint ventures, with evenly distributed ownership, neither of the partners can unilaterally impose its own cultural values on the venture. Together the partners must develop what Olie (1994, p. 385) called "a third culture composed of a combination of the two original cultures or, at least, a strongly modified version of one of the original cultures." Faced with this dynamic process of cultural interchange or blending, the international joint venture is likely to generate individual and collective conflicts that can ultimately jeopardize the venture's durability. The absence of a dominant reference culture requires that a strong cultural congruence should be promoted among the partners, although such an approach is often neglected (Zahra and Elhagrasy, 1994).

In seeking to develop a common culture for their alliance, the partners should attempt to analyse the strengths of their own organizational and national cultures and build these into the norms and behaviours adopted by their cooperative venture (Child and Faulkner, 1998). The partner needs to maintain an active link with the venture, which the maintenance of a shared identity, as well as regular reporting procedures can both symbolise and underwrite. These links are a necessary complement to the development of the alliance's own culture. They enable the strengths of partner cultures to feed into the



alliance culture while, at the same time, reducing the risk of the alliance forming an identity and pursuing objectives that become at odds with those of its parents. It is beneficial to have a diversity of cultures among organisational members because this offers a stimulus to learning and sensitivity to local environments but at the same time there is a need to manage the cultures so that they become forces for integration rather than division.

A corporate culture can be an important resource available to the leaders of organizations (Deal and Kennedy, 1982; Hampden-Turner, 1990; Brown, 1995). Because a shared culture encourages people to accept a common goal and to identify with each other, it can also facilitate the processes of coordination and control within an organization. By giving the members of an organization common reference points and ways of interpreting reality, a shared culture can reduce uncertainty and promote consistency of effort. In providing meaning to their work and to their membership of an organization, an appropriate and cohesive culture can also be an important source of motivation for employees. For these reasons, an alliance between partner companies should benefit if they permit and indeed encourage, it to develop its own culture.

### **2.2.6 Cultural Durability**

According to Meschi (1997), not all forms of cultural difference can be considered equal: the ethnic specificity within each group of employees will tend to disappear faster than the organizational differences. Organizational culture indeed seems to be far more "durable" than national culture. For the sample of JVs, Meschi (1997) studied in Hungary, the culture inherited from organizational experience was clearly found to be more rigid and "solid" than the ethnic or national culture, which was found to be far more flexible and malleable. The notion that different types of culture should present levels of durability comes as no surprise. Earlier studies have largely validated this observation (Sathe, 1983, 1985; Nabavandi and Malekzadeh, 1988; Buono and Bowditch, 1989).

Certain studies have addressed the question of cultural durability (Deal and Kennedy, 1982; Sathe, 1983, 1985). Three major characteristics have been determined: the extent,



dissemination, and hierarchy of the fundamental cultural elements (i.e. beliefs, values, assumptions, and customs shared) throughout the company. Buono and Bowditch (1989, p. 147) point out that "the greater the degree of shared beliefs and values, the stronger the culture's influence." It can be considered that organizational beliefs, values, assumptions, and customs held by the different groups of employees in the IJV are more widely shared within the individual organizational entity than within the national community as a whole. This confirms a widely held notion that organizational culture tempers the influence of national culture (Maurice et al., 1980; Adler, 1986). Under this line of reasoning, Adler (1986, p. 46) assumed that "employees working for the same organization, even if they are from different countries are more similar than different."

### **2.2.7 Cultural Distance and Joint Venture Performance**

Hofstede et al. (1990) found that, whereas organizations from different nations differ in fundamental values, organizations from the same nation differ only in organizational practices. The authors therefore concluded that when both national and organizational cultures are examined, the former should be operationalized in terms of values, and the latter in terms of core organizational practices. As such, although national and organizational cultures have been regarded as separate constructs, it is also widely accepted that organizational culture is nested in national culture.

In the context of both mergers and joint ventures, scholars have generally argued that alliances between culturally similar partners are more likely to be successful than alliances between culturally dissimilar partners. Cartwright and Cooper (1993:57) state that in alliances "selection decisions are generally driven by financial and strategic considerations, yet many organizational alliances fail to meet expectations because the cultures of partners are incompatible". Different culture types create different psychological environments for the joint venture or the merged company, and differences in practices have a negative influence on performance (Cartwright and Cooper, 1993). Thus, "the degree of culture fit that exists between combining organizations is likely to be directly correlated to the success of the combination" (Cartwright and Cooper, 1993: 60).

### *National Culture Distance and IJV Performance*

Cross-national joint ventures have been reported to suffer from communication, cooperation, commitment, and conflict resolution problems caused by partners' value and behaviour differences, which in turn cause interaction problems that adversely influence joint venture performance (Harrigan, 1988; Mohr and Spekman, 1994; Parkhe, 1991; Ring and Van de Ven, 1994). Values and behavioural differences between culturally distant partners influence interpretation and responses to strategic and managerial issues, compounding transactional difficulties in international joint ventures (Park and Ungson, 1997). For example, cooperation-generating mechanisms vary between individualist and collectivist cultures because of the differences in their instrumental and expressive motives (Chen et al., 1998; Wagner, 1995).

Commitment generating mechanisms are also different among different cultures, and cultural differences make it difficult to generate commitment between partners in joint ventures (Cullen, Johnson, and Sakano, 1995). For example, Cullen et al. (1995) found that while both U.S. and Japanese partners related their level of commitment to perceived benefits (satisfaction and economic performance); they differed in their perception of satisfaction. The Japanese partners perceived long-term organizational performance as an indicator of satisfaction and emphasized the nature of relationships as an important factor for commitment, while the U.S. partners were concerned with more immediate results. Further, on the assumption that personal relationships based on trust would lead to commitment, the Japanese managers, in contrast to the Western managers, preferred to personalize business practices and de-emphasize formal contracts (Cullen et al., 1995).

Shenkar and Zeira (1992) argued because priorities and expectations of their parent firms may be different, managers of joint ventures are prone to role conflict. Methods of resolving conflicts may also vary across different cultures (Henderson, 1975). For example, whereas American managers prefer to use direct and confrontational legal tactics in dealing with other firms when other methods fail, Japanese executives prefer to be flexible in responding to unfolding problems and to avoid using formal, detailed



contracts that stress strict performance and enforcement (Henderson, 1975). Research also suggests that conflict resolution methods cannot be applied effectively from one culture to another.

In previous studies, differences in the cultural backgrounds of the partners have generally been perceived as a threat to the survival of IJVs (Brown et al., 1989; Harrigan, 1988; Shenkar and Zeira, 1992; Woodcock and Geringer, 1991). Consistent with this view, various studies (Barkema et al. 1996, 1997; Li and Guisinger, 1991) have found that the chances of survival of IJVs are lower when the cultural distance between the home country of the expanding firm and the host country is large. In their study, Barkema and Vermeulen (1997), developed hypotheses about which differences in national culture are most disruptive for IJVs, as shown in Table 2.2.1. The hypotheses were tested on longitudinal data about 828 foreign entries of twenty-five Dutch multinationals in seventy-two countries between 1966 and 1994. The hypotheses regarding which differences in the cultural backgrounds of partners are particularly disruptive for IJVs are discussed below using Hofstede's five dimensions.

Differences in uncertainty avoidance are difficult to cope with in the case of international cooperation (Hofstede, 1989). Organizations in countries characterized by high uncertainty avoidance tend to respond to uncertainty in the environment by building up a system of high formalization and hierarchy (Hofstede, 1980). In countries where uncertainty avoidance is low, however, people feel much more attracted to flexible, ad hoc structures which leave much room for improvisation and negotiation. In sum, Barkema and Vermeulen (1997) argue that differences in uncertainty avoidance lead to differences in how partners perceive and respond to events in the environment of the IJV, which will likely breed disagreement and dispute between the partners, and have a detrimental impact on the IJV's chances of survival.

Power distance and individualism directly bear on issues of internal integration and influence relationships with personnel, such as the organization's choice of control forms, reward systems and so on (Hofstede, 1980; Kim, Park and Suzuki, 1990; Lebas and



Weigenstein, 1986). However, management of personnel is usually one of the first activities to be left to the local partner to organize (Hofstede, 1991; Rosten, 1991; Stopford and Wells, 1972). Furthermore, Hofstede (1985) and Shenkar and Zeira (1992) suggest that having partners from both feminine and masculine cultures may even benefit the IJV. The aggressive attitude of one partner (aimed at individual achievement and performance) and the relationship orientation of the other may complement each other rather than collide (Hofstede, 1980).

Differences in the long-term orientation of the partners will likely lead to differences in objectives and in perceived opportunities and threats in the environment of the IJV (Schneider, 1989; Schneider and De Meyer, 1991). Barkema and Vermeulen (1997) note, one partner may have a sense of urgency and favour quick results, while the other has a long-term view and is more oriented towards investments in financial assets and in building up a relationship with the partner. Such differences will likely breed tensions and increase the probability of untimely dissolution of the IJV. As summarised in Table 2.2.1, Barkema and Vermeulen (1997) conclude that differences in long-term orientation and uncertainty avoidance cause problems in IJVs, while differences in power distance, individualism and masculinity do not necessarily lead to problems.

Overall, the underlying uncertainty due to cultural differences makes it costly to negotiate and transfer management practices and firm-specific technologies. Since national culture is perceived to be the fundamental differential factor in an IJV, even superficial differences might result in the partners choosing national culture as a primary form of identity (Salk and Brannen, 2000). A salient social identity leads to accentuation of similarities and differences between partners, perhaps causing individual differences to be associated with nationality (Salk and Brannen, 2000). Accordingly, IJV partners from different national cultures experience greater difficulty in their interactions (Lane and Beamish, 1990), which would adversely influence joint venture performance.

**Table 2.2.1: Summary of the studies reviewed and their findings**

<b>The Authors</b>	<b>Focus of the Study</b>	<b>Findings and Conclusions</b>
Kogut and Singh (1988)	The effect of national culture on the choice of entry mode	The greater the cultural distance or the greater the culture of the investing firm is characterised by uncertainty avoidance, the more likely a firm will choose a joint venture or wholly owned greenfield over an acquisition.
Newman and Nollen (1996)	The effect of the fit between management practices and national culture on financial performance	Business performance is better when management practices are congruent with national culture. Management practices should be adapted to the local culture to be most effective.
Park and Ungson (1997)	The effect of national culture, organizational complementarity and economic motivation on JV dissolution	Cultural distance did not have an affect on dissolution but U.S.-Japanese joint ventures lasted longer than U.S.-U.S. joint ventures.
Barkema and Vermeulen (1997)	The effect of national culture dimensions on IJV survival	Differences in uncertainty avoidance and long-term orientation- rather than differences in power distance, individualism and masculinity- have a negative impact on IJV survival. The impact of cultural distance on IJV survival has not disappeared over time (values are stable over time).
Li et al. (2001)	The effect of culture on behaviour and performance of IJVs in China	Culture influences the timing of entry of joint ventures, their investment preferences and performance. The results suggest the impact of cultural as well as technological resources. JVs in China funded by partners with similar East Asian collectivistic cultural values are more likely to enjoy first-mover advantages than those funded by partners with Western individualistic cultural values.



		JVs in China which are funded by firms from similar East Asian cultures will achieve higher profitability, efficiency and asset growth than those funded by parties from Western individualistic cultures.
Pothukuchi et al. (2002)	The effect of dimensions of national and organisational culture differences on IJV performance	National culture distance affects the efficiency and competitiveness measures of IJV performance. Organizational culture distance is a better predictor of the satisfaction measure of IJV performance. Organizational culture distance has a negative impact on organizational outcomes but national culture distance can have either a positive or a negative effect.
Hanvanich et al. (2003)	The effects of partner and location cultural differences in joint ventures on shareholder value creation	U.S. investors disapprove of IJVs when the location is in the home country of one of the partners. The absence of partner culture differences in JVs leads to higher performance.
Sirmon and Lane (2004)	A model of cultural differences and international alliance performance	Organizational culture differences will tend to be more disruptive than national culture differences, and differences in the professional culture most relevant to alliance value creation typically will be the most disruptive.
Ozorhon et al. (2008)	Implications of culture in the performance of international construction joint ventures	Differences in organizational culture have a greater impact on IJV performance than differences in national and host country culture. Similarity between the national cultures of IJV partners has a negative effect on IJV performance. The findings did not provide evidence that IJV performance is affected by differences between the culture of the host country and the culture of an IJV partner.
Wilkinson et al. (2008)	The diminishing effect of cultural distance on subsidiary control	Subsidiary age moderates the effect of cultural distance on expatriate staffing and ownership. Cultural distance has a significantly greater impact on subsidiary control mechanisms for newer subsidiaries than for older subsidiaries.



### ***Organizational Culture Distance and IJV Performance***

Hofstede et al. (1990) suggest six core organizational practices that differentiate organizations in their management orientation: process versus result; employee versus job; parochial versus professional; open versus closed system; loose versus tight control; and normative versus pragmatic. The process versus result orientation dimension opposes a concern for means (process oriented) with a concern for goals (result oriented), which are respectively associated with Burns and Stalker's (1961) mechanistic and organic systems (Hofstede et al., 1990). While mechanistic systems focus on rigid division and allocation of tasks, organic systems focus on the overall task, allowing variations in the organization of sub-tasks. When partners in a joint venture differ on this dimension, they differ in the methods and practices adapted towards communication, goal achievement, career systems, power structures, and they face a conflicting set of job roles, expectations and practices. These differences lead to conflicting behaviours that would adversely influence joint venture performance.

The employee versus job orientation dimension contrasts a concern for people (employee oriented) with a concern for getting the job done (job oriented). Hofstede et al. (1990) relate this dimension to the managerial grid developed by Blake and Mouton (1964). The position (9,1) on the grid represents the task management style in which a manager is an exacting taskmaster who expects schedules to be met and people to do what they are told. Disagreements are ruled out and suppressed rather than settled (Pugh and Hickson, 1989). On the other hand, the position (1,9) on the grid represents the employee management style, in which managers do not push people for production and overlook their mistakes because members are considered to be doing the best they can.

The parochial versus professional orientation dimension analyzes organizations based on whether employees derive their identity from the organization (parochial) or from the type of job (professional), which corresponds to internal versus external frames of reference (Hofstede et al., 1990). These two types of organizations represent two different forms of governance that are suitable and efficient in contrasting environments: "clan" form for parochial and "market" form for professional (Ouchi, 1980). When IJV

partners differ on this dimension, conflicts in their job structure, job expectation, reward systems and coordination mechanisms would result in conflicting behaviours from members and adverse consequences for IJV performance.

The open versus closed systems orientation dimension differentiates organizations based on their communication climate (Hofstede et al., 1990). Differences in organizational practices are reflected in the communication climate and vice versa in an ongoing dynamic process of structuration where communication climate and organizational systems evolve continuously (Poole, 1985). Thus, in an IJV, when the communication climate is strained due to incongruent organizational practices between partners, differences in partners' expectations lead to conflicting behaviours and cause a mismatch in interaction processes (Jablin et al., 1987).

The loose versus tight control orientation dimension classifies organizations based on their amount of internal structuring and management control (Hofstede et al., 1990), and represents a conflict between individual autonomy and organizational control (Hofstede, 1967). Excessive differences between control orientations of partners would influence their patterns of communication. These patterns often become rigidly circumscribed and formalized, fostering negative attitudes, suspicion and dissociation between groups (Putnam and Poole, 1987). Thus, a mismatch in the levels of organizational control may cause interaction problems between joint venture partners.

The normative versus pragmatic orientation dimension separates organizations into rule oriented (normative) and customer oriented (pragmatic) organizations (Hofstede et al., 1990). The organizations in pursuit of excellence, according to Peters and Waterman (1982), stick to the principle of staying obsessively close to the customer and organize their systems and practices accordingly. Organizations differ in their practices depending on how committed they are to implementing this principle. The differences are all encompassing, influencing members' behaviour in every aspect of the business (Peters and Waterman, 1982). In joint ventures, differences in implementing this principle also cause pervasive differences in the partners' practices, resulting in conflicts between them.



In summary, organizational culture differences differentiate partners based on their management practices, which are deemed essential for the functioning of their respective organizations. Differences in practices represent conflicting expectations and incompatible organizational processes. Partners with dissimilar organizational cultures may expend time and energy to establish managerial practices and routines to facilitate interaction and may incur high costs and more mistrust than culturally similar partners (Park and Ungson, 1997). Brown et al. (1989) also concur that compatibility in partners' organizational cultures and practices could be a significant determinant of the performance of IJVs. Research on organizational climate similarity and performance also indicates that firms selecting a partner that has a similar organizational climate will have superior performance (Fey and Beamish, 2001). According to Ozorhon et al. (2008), differences in organizational culture have a greater impact on IJV performance than differences in national and host country culture. Ozorhon et al. (2008) also conclude that similarity between the national cultures of IJV partners has a negative effect on IJV performance.

### **2.2.8 Cultural Distance and Control**

Scholarly work has examined the influence of cultural distance on entry mode choice, expatriate staffing, and level of ownership as it relates to control of the foreign subsidiary by the multinational corporation (Gatignon and Anderson, 1988; Kogut and Singh, 1988; Boyacigiller, 1990; Erramilli and Rao, 1993; Kim and Hwang, 1992; Agarwal, 1994; Shane, 1994; O'Grady and Lane, 1996; Padmanabhan and Cho, 1996; Anand and Delios, 1997; Erramilli et al., 1997; Morosini et al., 1998; Hamilton and Kashlak 1999; Calhoun 2002). Some scholars link cultural distance with the need for cooperative arrangements (Gatignon and Anderson, 1988; Kogut and Singh, 1988; Erramilli and Rao, 1993). Others submit that cultural distance problems can best be addressed with strong hierarchical control (Shane, 1994; Padmanabhan and Cho, 1996; Erramilli et al., 1997). Thus, little agreement has been forthcoming with respect to the influence of cultural distance on control issues.



One stream of research, using the transaction cost approach, hypothesizes that multinational corporations increase their level of control in response to increasing cultural distance (Davidson and McFeteridge, 1985; Root, 1987). The implicit, underlying assumption is that high control modes are necessary because cultural distance and agency costs increase concurrently. The transaction cost approach posits that it will be more difficult to verify claims by culturally distant agents, since the agents will make claims rooted in an unfamiliar environment while buffered from enforcement by an MNE (Shenkar, 2001). Because internalization is a means of increasing operational certainty and a way to verify the claims of agents (Williamson, 1981), firms respond to increasing cultural distance by implementing high modes of control.

This perspective has been supported by several studies. In their research on U.S. service firms with international operations, Erramilli and Rao (1993) found the level of control increased as cultural distance increased, while Anand and Delios (1997), using Japanese FDI data, found that joint ventures were more likely to form in culturally proximate countries. Boyacigiller (1990), in a study of a U.S. bank with 84 branch offices in 43 countries, found the percentage of expatriates used in staffing foreign subsidiaries increased with cultural distance. Finally, both Padmanabhan and Cho (1996), who studied Japanese MNCs in 36 countries, and Pan (1996), who examined U.S., EU, and Japanese joint ventures in China, found percent ownership of the foreign subsidiary by the parent firm to be directly related to cultural distance. However, Pan (1996), found that cultural distance did not have any impact on percent ownership once the parent firm had achieved a controlling share in the subsidiary (50% or greater).

In contrast, a second stream of research links increases in cultural distance with the loosening of control as a method for reducing uncertainty and information costs (Alpander, 1976; Anderson and Gatignon, 1986; Goodnow and Hansz, 1972). This perspective has received empirical support in a number of studies that reported low control modes at high cultural distance levels (Kogut and Singh, 1988; Kim and Hwang, 1992). For example, Kogut and Singh (1988) found that greater cultural distance increased the likelihood of greenfield IJVs over both greenfield WOSs and the

acquisition of a controlling stake in an existing operation. Their study was based on 228 entries into the U.S. market from a variety of triad countries, as well as Malaysia and South Africa. This was the case even after removing Japan from the analysis. In addition, Gatignon and Anderson (1988) found the percent ownership of the foreign subsidiary by the U.S. parent firm to be inversely related to cultural distance for one category of countries.

At least two studies have failed to find links between cultural distance and subsidiary control. Erramilli (1996) found no significant relationship between cultural distance and mode choice, while Richards (2001) found that cultural distance did not have an impact on the use of expatriates in staffing foreign subsidiaries.

As shown in Table 2.2.1, Wilkinson et al. (2008) hypothesized that the impact of cultural distance on the control relationship between the subsidiary and the parent firm diminishes and eventually disappears as managers in the parent firm establish relationships and develop trust, gain knowledge of the host culture and design more appropriate control systems and culturally appropriate managerial practices, and provide better cultural training for expatriates and improved training for local employees. The impact of cultural distance on the control issues of expatriate staffing and the level of foreign ownership was moderated by the age of the subsidiary. Thus, for older subsidiaries, national cultural distance did not play a role in the assignment of expatriates or the level of ownership in the foreign subsidiary. Based on their results, they concluded that the impact of cultural distance on foreign subsidiary control appears to be temporary.

These findings are in accordance with organizational learning theory (Barkema et al., 1996; Shenkar and von Glinow, 1994) and the international process model (Johanson and Vahlne, 1977, 1990). Familiarity with the host country occurs incrementally as firms deal with new kinds of problems and gain country-specific knowledge (Pennings et al., 1994). Experiential knowledge gained as the subsidiary ages allows firms to internalize country-specific knowledge (Johanson and Vahlne, 1977), reduce costs and uncertainty (Johanson and Vahlne, 1990; Welch and Luostarinen, 1988) and overcome the “liability of



foreignness” (Zaheer, 1995). For these reasons, the loosening of subsidiary control can be seen as the natural outcome of incremental adjustments made by the firm as it ages. Although greater cultural distance may initially necessitate high control modes (Davidson and McFeteridge, 1985; Root, 1987), the culture related problems that result can be overcome through this incremental adjustment process. As the firm adapts, the need to maintain tight control over the subsidiary lessens, eventually resulting in looser forms of control.

### **2.2.9 National Culture and Management Practices**

Child's (1981) observation that national culture was underdeveloped conceptually for comparative research has been addressed in recent years with several attempts to conceptualize and measure differences in cultures among nations and to relate cultural differences to differences in management practices. There is ample empirical evidence that national cultures vary and that a variety of management practices, including strategic decision-making (Schneider and DeMeyer, 1991), leadership style (Dorfman and Howell, 1988; Puffer 1993), and human resource management (Luthans et al., 1993) differ by national culture.

National culture is a central organizing principle of employees' understanding of work, their approach to it, and the way in which they expect to be treated. National culture implies that one way of acting or one set of outcomes is preferable to another. When management practices are inconsistent with these deeply held values, employees are likely to feel dissatisfied, distracted, uncomfortable, and uncommitted. As a result, they may be less able or willing to perform well. Management practices that reinforce national cultural values are more likely to yield predictable behaviour (Wright and Mischel, 1987), self-efficacy (Earley, 1994) and high performance (Earley, 1994) because congruent management practices are consistent with existing behavioural expectations and routines that transcend the workplace.

The competitive advantage derived from correctly adapted management practices comes from alignment between key characteristics of the external environment (national culture)



and internal strategy, structure, systems, and practices (Burns and Stalker, 1961; Chatman and Jehn, 1994; Powell, 1992; Prescott, 1986). For managers of multinational corporations, the implication is that adaptation to local cultural conditions is necessary to achieve high performance outcomes.

Newman and Nollen (1996) analyzed financial performance outcomes for work units in eighteen countries on three continents. They described the fit between a variety of management practices in these work units and several dimensions of the national cultures in which they operate. In this research, they examined empirically the effect of congruence between Hofstede's five national culture dimensions and analogous management practices. They found that in most cases, work units whose management practices fit better with the national culture have higher financial performance than work units where the fit is not as good. As summarized in Table 2.2.1, Newman and Nollen (1996) advocate that management practices should be adapted to national culture for high performance.

#### **2.2.10 Limitations of Hofstede's Framework**

Sivakumar and Nakata (2001) argue that Hofstede's work has been the subject of considerable debate and they summarise the debate in the following way. Researchers adopting a more emic perspective may argue that national culture, in all its complexity, cannot be captured quantitatively and reduced to four variables. Others may be uneasy with Hofstede's use of a single multinational corporation as a basis for his conclusions about national culture. And still others may point out that national culture is changeable and, even if understood at any single point in time, it is heterogeneous within any given country. All these views suggest that Hofstede's theory and findings fall short of being useful. Despite an awareness of these limitations, business researchers have applied Hofstede's work in dramatically increasing numbers, making it the dominant culture paradigm. Hofstede's indexes are the most comprehensive set of value measures available, and national culture is believed to change slowly.

Countries are often chosen to represent opposites on a culture dimension (high vs. low), though the degree of difference may not be always be clear or well specified. Countries may in fact be close on a culture dimension, but be placed in different groups based on the median or mean score or an arbitrary cut-off. Many studies treat the culture factors independently, ignoring other factors despite their potential impact. It has been pointed out that the major weakness of theory-driven cross-cultural studies, along with item bias, is alternative explanations for the observed cross-cultural differences (Van de Vijver and Leung, 1997, p. 292).

The challenges faced in selecting two countries for hypothesis testing of the effect of culture can be illustrated with Hennart and Larimo (1996). They test hypotheses regarding the role of power distance and uncertainty avoidance on the nature of market entry strategies using data for two countries, viz., Japan and Canada. Although they control for several other contextual variables (such as firm size), it is not possible to demonstrate the main effects of power distance and uncertainty avoidance separately nor is it possible to rule out the role of other culture factors. There are several other studies that state a hypothesis involving two countries (as opposed to culture factors) but use the role of culture to justify the hypotheses (e.g., Rao and Hashimoto, 1996). Although a few researchers use a large number of countries to obtain variation in given culture factors (e.g., Johnson and Lenartowicz, 1996), studies have not tried to systematically rule out explanations based on other culture factors nor studies that have tried to examine interaction effects between two culture factors (Sivakumar and Nakata, 2001).

### **2.2.11 Summary**

Culture differences between joint venture partners have usually been considered a major factor that might influence venture failure or unsatisfactory performance (Cartwright and Cooper, 1993; Harrigan, 1985). Joint venture research has focused primarily on the influence of national culture distance and has not adequately examined the role of organizational culture distance. By simultaneously studying cultural distance at both levels, (1) the findings at one level are not confounded with potential effects of the other

level; and (2) the relative effect of organizational versus national cultural distance on IJV performance can be assessed.

The task of coordinating and integrating different national and organizational cultures is the most demanding, complex, and problematic challenge in the management of international joint ventures. To effectively manage the cultural differences within an international joint venture, a special effort must be made to identify and assess the specific cultures (national as well as organizational) of each partner. It is important that cultural differences should be understood before the respective groups are brought into contact, since the management of the international joint venture must handle the underlying causes of cultural clash as early as possible. If the cultural characteristics of the partners are left unattended, the consequences can be highly unpredictable. Barriers may be formed between employees, with a variety of problems emerging in the newly combined entity.

In the realm of culture, there are too many factors that fall beyond the scope of management control. Many researchers have supported this view, pointing out that "culture may manage us much more than we can manage it" (Buono and Bowditch, 1989, p. 163). Although management lacks complete control over the question of cultural difference, this does not mean that all forms of management control are impossible. As Ohmae (1989, p. 150) has observed, "the problem with joint ventures is that parent companies behave as parents everywhere often do. They don't give their children the breathing space or the time they need to grow." It is thus clear that cultural differences will never be properly managed unless an appropriate amount of time and autonomy are granted to the process.

This section, the second section of the literature review, has reviewed the literature on cultural differences between joint venture partners. The next section considers trust between joint venture partners.



## **2.3: TRUST BETWEEN JOINT VENTURE PARTNERS**

### **2.3.1 Introduction**

Trust between joint venture partners is the third section of the literature review, as shown in figure 1.1 on page 4. Although trust has been identified as a critical factor in alliance management, rigorous conceptual and empirical developments of alliance trust have remained elusive. The objective of this section is to develop a conceptual understanding of joint venture trust. Previous literature on trust is reviewed and this shows that trust has been viewed from three different perspectives: structural, social, and psychological. This section focuses on two approaches towards managing interorganizational relationships. One is based on opportunism and focuses on contractual mechanisms (the contract-centred approach) while the other is based on trust and focuses on cooperative mechanisms (the relationship-centred approach). A framework of the antecedents and consequences of JV trust is discussed. The factors considered as antecedents are: prior cooperative relationships, habitualization, individual attachment, organizational fit, and assessment of partner competence. Proposed consequences or outcomes of JV trust include forbearance, governance structures, relationship investments, increases in JV scope, and JV performance. How the two concepts of trust and control operate in a parallel fashion to generate confidence in partner cooperation is examined. The complexities of the trust-control relationship are explored and the impact of control mechanisms on trust level is discussed.

### **2.3.2 The Nature of Joint Venture Trust**

Trust is based on a set of mutual expectations or anticipations regarding each actor's behaviour and each actor's fulfilment of its perceived obligations in light of such anticipation (Thorelli, 1986). Trust does not mean the "naive belief in the honesty of other actors but rather the probability of violation of implicit or explicit agreements" (Bromiley and Cummings, 1993: 10). In other words, trust is the perceived likelihood of the other not behaving in a self-interested manner. Following Currall and Judge (1995), joint venture (JV) trust is defined as reliance on another JV party (i.e., person, group, or

firm) under a condition of risk. Reliance is volitional action by one party that allows that party's fate to be determined by the other party (Zand, 1972).

Risk means that a party would experience potentially negative outcomes, i.e., injury or loss (Isen et al., 1988; March and Shapira, 1987; Sitkin and Pablo, 1992), from the untrustworthiness of the other party. Risk is a precondition for the existence of trust, and the trustor must be cognizant of risk (Mayer et al., 1995; Sitkin and Pablo, 1992). In the absence of risk, trust is irrelevant because there is no vulnerability. The greater the risk, the higher the confidence threshold required to engage in trusting action. In the world of business cooperation, trust means having sufficient confidence in a partner to commit valuable know-how or other resources to transactions with it despite the fact that, in so doing, there is a risk the partner will take advantage of this commitment (Inkpen and Currall, 1998).

According to Child et al. (2005), firms incur a number of risks when they enter into strategic alliances. One is the risk that their partner(s) will act opportunistically; in other words take advantage of them if and when the opportunity arises. When forming an alliance, it is difficult to distinguish between a partner who will behave opportunistically and one who will not. A joint venture will often involve the exposure of key knowledge and technology resources to a partner. In this situation, there is risk that a partner will appropriate the resources as the basis for eliminating partner dependence and making the JV bargain obsolete. The reputation of the prospect partner firm for reliable behaviour can therefore be quite significant factor in deciding whether to proceed further.

Each partner is vulnerable to opportunism (Williamson, 1975) potentially engaged in by its counterpart, and it is difficult, if not impossible, for each party to sort out ex ante who will be an opportunistic partner. Therefore, gaining management control can be considered as both a defensive and a proactive strategy. Used defensively, control can be exercised by a partner to overcome opportunism possibly engaged in by other partners (Hansen and Hoskisson, 1996). Since the partners do not have complete information about each other or about the future of the prospective IJV at its formation (Kogut, 1991;



Chi and McGuire, 1996), their initial relationships resemble an arm's-length market transaction in which competition and prevention of opportunism are the norm (Williamson, 1991). The potential for opportunism exists until the partners develop a reputation of trustworthiness with each other (Parkhe, 1993).

A second type of risk is associated with the resources and efforts devoted to building a cooperative relationship. As Smith and Barclay (1997) note, these resources and efforts will probably have no external value, and cannot be recovered if the JV terminates due to the untrustworthiness of the partner firm. A third type of risk involves the inability of a partner firm to execute its share of the JV bargain. Before the partners have worked together, they have little information about each other's skills. The partner may intend to honour its side of the agreement, but not have the ability to do so. It is therefore important when an alliance is formed for each partner to assess the other's competence, and then decide how tasks are to be jointly performed. If one firm misleads the other into believing it can perform certain tasks when it cannot, it may be impossible to achieve the objectives set out by the JV agreement.

One of the hybrid characteristics of alliances arises from the paradox that they often combine elements of cooperation and competition, or at least the attempt to formulate common goals on the basis of not wholly complementary objectives (Hamel, 1991). The combination of mutual reliance between alliance partners with residual or potential elements of competition or conflict between them can set up a game-theoretic dynamic that adds to the risk and precariousness of the cooperation. Trust between the partners is required to help overcome this threat, yet at the same time the source of the threat inhibits the development of trust. Most managers involved in alliances are very aware of the significance of trust, though they also realize it is not an easy thing either to create or to preserve. Das and Teng (2002) argue that trust is complementary to the social networks and social exchange that can importantly facilitate alliance formation and operation. Equally the presence of such networks provides assurances and guarantees against opportunistic behaviour and therefore provides beneficial conditions for trust to develop between new alliance partners.



Child et al. (2005) note that trust between partners should make them more willing to share information and so better inform their actions and decisions (reduce bounded rationality). Furthermore, they argue that mutual trust should make it safer for the partners to invest assets in their alliance which cannot readily be used elsewhere (asset specificity) and should reduce the temptation for either partner to take advantage of the other (opportunism) because of the goodwill it represents. If trust can introduce these positive features into a partnership, it will render the cooperation more genuine, reduce the need to spend time and effort checking up on the other partner, and help to direct the partners' attention and energies towards longer-term goals of mutual benefit. This is why so many alliance managers consider trust to be essential.

### **2.3.3 A Multilevel Phenomenon**

Currall and Inkpen (2002) argue that trust has to be thought of as occurring at three levels within an alliance. One level is that of the partner company; another is at the level of groups such as a group of partner managers; the third level is that of the individual. The importance of making these distinctions can be seen when the various arrangements that may help promote trust within an alliance are considered. For instance, a formal agreement, such as a JV contract, can provide a basis for trust, based on the assurances and commitments it contains. However, such an agreement may not be sufficient if the groups and individuals who have to work together within the JV do not trust each other. For if trust is lacking at their level, they may as well breach the terms of the formal inter-organizational agreement in order to secure an advantage and/or to protect what they see as their own interests.

The development of interpersonal trust between the managers within the partner organizations who are directly responsible for coordinating and monitoring the alliance can have a very significant effect on promoting trust at a group level, such as between collaborating departments in the two partner companies, as well as at the organizational level represented by boards of directors. It is therefore important that the formal provisions, such as contracts, to foster an alliance relationship are complemented by

efforts to ensure that informal and interpersonal relations proceed on a basis of trust as well. This implies that care needs to be taken to select suitable people and to offer them appropriate briefing and training. Boersma et al. (2003) developed a process model of trust building in IJVs, and found that different types of trust play different roles in the process.

#### **2.3.4 The Treatment of Trust in the JV Literature**

##### ***JV trust as a structural property***

The structural component refers to the complementarity of the resources contributed. Such complementarity provides the basis for the exchange and the potential for value creation within it. As a structural characteristic of the JV relationship, JV trust is based on the underlying assumption that trust can exist between the partner firms. This perspective connotes a firm level unit of theory and downplays the interaction between managers. Although firms cannot, strictly speaking, trust one another, just as they cannot cognize nor have attitudes (James et al., 1988), firm-level treatments of trust are widely used in the JV literature (Buckley and Casson, 1988; Madhok, 1995). The primary concern of those viewing trust as a structural concept is partner-opportunistic behaviour that reduces the value of collaboration. In the structural perspective, trust is linked with partner strategic motives, and efficient cooperation is associated with the generation of inter-firm trust (Buckley and Casson, 1988). Beamish and Banks (1987) argued that with a foundation of trust, JV partners will be more willing to exercise the tolerance and perseverance necessary to see the JV through difficult times. According to Gulati (1995:105), observing inter-firm alliances over time suggests that repeated ties between firms engender trust that is manifested in the form of the contracts used to organize subsequent alliances.

##### ***JV trust as a social property***

The social component refers to the intrinsic quality of the relationship itself, which has a strong impact on the nature of exchange within it (Jones, 1983). The social dimension of JV trust, as described by Madhok (1995:120), is based on the history of interactions between the partners that provides the social "glue" within which economic exchange



occurs. There are two key differences between the social and structural views. The first deals with the partnership implications associated with a lack of trust. In contrast to the structural view, which emphasizes that the lack of inter-firm trust leads to opportunistic actions, the social perspective emphasizes that a lack of trust can lead to ineffective firm interactions and the absence of cooperation, resulting in poor JV performance. The presence of trust can facilitate the continuation of the relationship during intermittent periods of inequity (Madhok, 1995), and can make cooperation easier to implement (Nooteboom et al., 1997). A second difference is that, under the structural view, trust is embedded in the partner relationship and, to some degree, can be a chosen characteristic of the JV based on a risk-based calculation. In contrast, trust as a social property is a product of ongoing interactions (Powell, 1996). From this perspective, a social view of trust is a reflection of closely interwoven relationships that develop incrementally over time (Zaheer and Venkatraman, 1995).

#### ***JV trust as a psychological property***

Some studies have examined the psychological underpinnings of trust between individual JV managers, the individuals who provide the linking mechanisms across organizational boundaries, namely, boundary role persons (Adams, 1976; Currall and Judge, 1995). Thus, the unit of theory is the individual JV manager. Nooteboom et al. (1997) note that relational risk associated with a partner organization is considered from the perspective of the individual manager who enacts the relation with the partner firm. The psychological approach to JV trust is consistent with recent interaction models whereby inter-firm collaboration is studied in the context of a specific relationship between individuals (Heide and Miner, 1992; Kumar et al., 1993; Ring and Van de Ven, 1994).

The key assumption underlying the psychological perspective is that JV trust is based on strong cognitive and emotional bases that result from close interpersonal relationships. Therefore, trust in collaborative arrangements is largely dependent on the managers who have responsibility for the management of the arrangement. Macaulay (1963:63) described how close personal ties between individuals in firms contracting with each other could "exert pressure for conformity to expectations". Ring and Van de Ven (1989)



suggested that informal connections across organizations played an important role in the governance structure of inter-firm transactions. Parkhe (1993) concludes that as individual managers of partner firms develop trust in each other, the partnership structure may change as the relationship takes on more hierarchical characteristics, with less emphasis on formal coordination and compliance measures.

### **2.3.5 Relationship and Contract-Centred Approaches**

In general, the criticism against the contract-centred approach is that it concentrates narrowly on the economic aspects of exchange and neglects the social context within which the relationship is embedded. The preoccupation with minimizing the costs within the exchange devalues the benefits from the relationship and fails to recognize the potential for effective reduction of the associated costs through social mechanisms. Whereas the contract-centred approach attempts to reduce uncertainty and manage the flow of information more formally through the legal form of the transaction, the relationship-centred view attempts to do so through the social processes underlying the transaction (Mattsson, 1987; Johanson and Mattsson, 1987).

According to Williamson (1975), the probability of some actors being opportunistic some of the time and not knowing who will act when and how in his self-interest results in precautionary adoption of the assumption of opportunism by all actors at all times and a consequent investment in safeguards. Others argue that opportunistic behaviour by any one actor, or fear of such behaviour on the part of the other actor in a relationship, lowers the quality of the interaction and not only increases the cost of maintaining safeguards but also results in the withholding of contributions beyond the very minimal required (Hill, 1990). This then diminishes the value of the relationship.

Williamson's (1975) point is that high uncertainty and asset specificity expose parties to opportunism. The way for parties to protect themselves is to internalize the transaction. Such a solution, however, entails high fixed costs. Hence it is only feasible if transactions are frequent, or recurrent, because then the cost per transaction decreases and becomes more reasonable. Johanson and Mattsson's (1987) argument is that, where transactions

are frequent, cultivation of the relationship results in more efficient interaction. Thus, though the emphasis of the two is different, the objectives are convergent. However, the relationship-centred approach goes beyond just economizing and cost minimizing and lays emphasis on the value generated through the relationship process. This is basically ignored by the contract-centred approach. The two approaches also converge in that both are interested in gaining flexibility in decision making through effective coordination and conflict resolution mechanisms: one through authoritative mechanisms and the other through creation of the appropriate social atmosphere. It is evident that not everything can be contracted and therefore there is an implicit level of trust in every exchange.

Though both the contract and the relationship are important, the balance in emphasis between the two seems to shift with successful prior interaction (Madhok, 1995). With a stranger, there is greater emphasis on the contract and the role and focus of the contract is more in terms of legal specifications and rules. At the same time, given the risk element inherent in trust, the contract is still considered to be important in a situation of successful past interaction, in spite of trusting one another. However, there is a subtle shift in emphasis and the role of the contract is more in the nature of a routine or a standard operating procedure. Here, the social aspects take on a more important role and the contract becomes less focal though nonetheless still important. Bradach and Eccles (1989) argue trust through the social exchange process in and of itself does not replace other forms of governance but complements them and can be combined with them to govern economic exchange.

According to Madhok (1995), conflict is managed through mechanisms operating at three levels. First is the complementarity of strengths, which forms the structural basis of the relationship and intrinsically provides a common interest. Second is the contractual mechanism, which refers to the formal document governing the relationship. It is especially important during the creation stage of the JV. Third are the informal and normative coordination mechanisms which result in flexibility and compromise. While the mutual need for each other provides the initial basis for the relationship, constant interaction and communication, which results in greater sharing of information and



creates greater understanding and knowledge of one another. A long-term perspective is conducive to this shared orientation. This is also facilitated by the knowledge that, should things not work out, the divorce mechanisms are fair. In a sense, a contract provides certain decision rights while relational norms provide a safeguard against exploitative use of these rights (Heide and John, 1982).

### *Application to the JV*

Arguments against the use of JVs due to the associated problems of coordination and control imply that internalization would solve these problems. However, this does not recognize that headquarter-subsidary relationships are also mixed motive dyads similarly characterized by independent and interdependent interests (Ghoshal and Nohria, 1989). The incremental costs of managing JVs arise partially from the costs of maintaining safeguards against the possibility of self-seeking behaviour arising from divergent objectives. A positive social dynamic between partners is important, since it facilitates the building of trust within a relationship. According to Jarillo (1990), neither pure market nor pure hierarchical relations are critical for sustaining a relationship: trust is.

The argument that nurturing the social dimension increases flexibility and tolerance, especially in a situation of ambiguity, is especially relevant in entities such as JVs, which involve team production by two actors contributing their respective inputs for mutual benefits (Beamish, 1985). The alignment of incentives through the sharing of ownership is not adequate to ensure desirable action by the partner. Madhok (1995) argues the critical issue is not that of the formal distribution of the residual income in line with the percentage of equity ownership but, rather, that of equity and fairness with respect to the process of the relationship itself. This perception of equity is important to encourage mutually oriented action, beyond the very minimum under the terms of the agreement.

The critical initial decisions are agreed to contractually in the negotiation phase, but sustenance of the relationship is based on trust and commitment. This commitment develops through interaction, and results in a trust-based relationship that more closely resembles an internalized mode than a contractual one (Cory, 1982). This implies a shift



from control through the ownership structure to influencing behaviour through interaction and the nurturing of relationships (Beamish, 1988). The need for control is positively correlated with lack of information which then heightens the level of risk perceived by an actor and consequently affects the choice of governance structure (Ring and Van de Yen, 1992).

It is important to recognize the difference in orientation between the structural and social dimensions of trust within a relationship. For the former, the incentive to abstain from behaving in a self-interested manner, i.e., to mutually forbear (Buckley and Casson, 1988), is that it would be costly to do otherwise. Here, both firms are in a mutual hostage situation. On the other hand, from the social perspective, mutually oriented behaviour is more positive in nature and occurs not to prevent value depletion but to enhance the relationship's value. The two together lower the perceived probability of opportunistic behaviour or, conversely, increase trust. Both these dimensions have the common objective of obtaining flexibility and efficiency in the conduct of the multinational firm's operations. The important issue perhaps is *not* that of ownership per se but, rather, that of superior coordination and conflict resolution.

### **2.3.6 Antecedents of JV Trust**

As a starting point, Doz (1996) emphasizes that negotiating and forming a JV initiates a dynamic relationship that, to be successful, will have to go through a series of transitions. Over time, as the partners and partner managers learn about each other and the JV becomes an operating entity, the level of inter-partner trust will change. Trust requires familiarity and mutual understanding and, hence, depends on time and context (Nooteboom, et al., 1997:314). As the relationship ages, previous successes, failures, and partner interactions will influence the level of trust in the JV. Unlike most economic commodities, trust may grow rather than wear out through use (Hirschman, 1984). Trust may also decrease over the life of the relationship. For example, when a JV is formed, there is a subjective probability that a partner will cooperate. Experience will lead to adjustment of the probability, which in turn may lead to a shift in the level of trust.

### ***Prior Cooperative Relationships***

When a new JV organization is created, the partners may have initial uncertainties about working together, particularly if they have had no prior cooperative relationship. On the other hand, new JVs that start with an existing stock of "relationship assets" may begin with a honeymoon period that effectively buffers the firm from early dissolution (Fichman and Levinthal, 1991). Previous cooperative ties between JV partners can generate an initial base of inter-partner trust and also shape the form of subsequent alliances (Gulati, 1995). If firms have worked together in the past, they will have basic understandings about each other's skills and capabilities (Heide and Miner, 1992). A history of relations between firms can shape the context for new exchange by reducing uncertainty. Experienced partners can forgo the relationship building processes that will be necessary for partners working together for the first time (Parkhe, 1993). Parkhe (1993) found that the presence of a prior history of cooperation between alliance firms limited their perception of expected opportunistic behaviour in new alliances and, as a result, reduced the necessity for contractual safeguards.

### ***Habitualization***

The familiarity and mutual understanding that develop through interactions based on social exchange has been termed habitualization (Nooteboom et al., 1997). The key elements in habitualization are repeated interactions and the length of time the parties have worked together. In contrast with the prior relationships variable, which deals with interactions that occurred before JV formation, habitualization reflects the ongoing and continuing relationships associated with the current JV.

Interaction over time may lead to commitment (Deutsch, 1962) and to the development of relationship-specific assets, such as a partner's knowledge of the other's procedures and values (Fichman and Levinthal, 1991). This implies that when firms repeat transactions with partners over time, as they will in a typical JV, an opportunity is created for the development of inter-partner trust. The passage of time lays the foundation for future expectations based on shared norms and values and hence, greater trust (Fichman and Levinthal, 1991; Granovetter, 1985). According to Parkhe (1993:803), "The older a



relationship, the greater the likelihood it has passed through a critical shakeout period of conflict and influence attempts by both sides."

### ***Individual Attachment***

Individual attachment reflects the socialization by individuals during their involvement in exchange activities. Personal relationships between JV managers can serve to shape and modify the evolving structure of inter-organizational collaboration (Jarillo, 1988; Ring and Van de Ven, 1994) and should be viewed as critical to the establishment of trust between partner firms (Yoshino and Rangan, 1995). JV managers, responsible for the day-to-day operations of relationships between the JV partners, foster trust by building one-on-one relationships with partner managers and by developing a familiarity with the partner's strategy, organization, and culture. A high turnover of managers can lead to a loss of relationship continuity and a reduction in individual attachment. Seabright, et al. (1992) suggested that individual attachments are important early in a relationship but diminish in significance with persistence of the relationship. A potential problem associated with attachment is that when alliances rely on trust based on personal bonding, problems may arise if personal loyalties deviate from organizational interest (Nooteboom, et al., 1997).

### ***Organizational Fit***

Jemison and Sitkin (1986) introduced the concept of organizational fit to describe the similarities between organizations in terms of organizational culture, human resource policies, and administrative processes. In the JV context, Saxton (1997) argued that organizational similarities between the partners help establish trust and enhance the appropriability of knowledge necessary to form the basis for a common frame of reference. In turn, learning can help offset cultural differences (Barkema et al., 1996) that often exist in IJVs. Inkpen (1995) found that a lack of compatibility between JV partners, particularly with regard to expectations about venture profitability, frustrated learning processes, which, in turn, contributed to breakdowns in trust.



Organizational fit and partner compatibility will evolve from a variety of factors, including similar corporate cultures and values, compatible control and decision-making systems, common time horizons for performance assessment, and convergence of strategic goals for the JV. A problem with the concept of partner compatibility is the difficulty of measurement, given the range of factors that contribute to organizational compatibility (Osborn and Hagedoorn, 1997).

### ***Assessment of Partner Competence***

Brockner et al. (1997) suggested that because trust is based on the expectation that the trustee will perform certain desired behaviours; the trustor must believe that the trustee has both the desire and ability to perform the behaviour in question. Without that belief, trust will be absent. This perspective can be extended to the JV context. Before a firm is willing to rely on another firm to perform critical JV tasks, there must be an assessment of that firm's competence and skills. If the firm is viewed as competent, there may be a willingness to trust. A firm viewed as incompetent will be too high a risk and, as a result, trust will likely not develop.

Hill (1990) suggested that parties will try to avoid entering an exchange with another party who has a questionable reputation and, if the reputation is questionable, additional security may be required to offset the additional risks. Although knowledge of the reputation associated with a potential firm's past behaviours is desirable to obtain, frequently this information will not exist in the public domain (Parkhe, 1993). For IJVs in particular, it is often difficult to obtain reliable information about potential partners. In the absence of information on partner past behaviour, it will be difficult to form an assessment of partner competence.

### **2.3.7 Consequences of JV Trust**

#### ***Forbearance***

The risk of partner opportunistic behaviour plays a pivotal role in all alliances, not because all economic agents behave opportunistically all the time, but because it is difficult to differentiate those that do from those that do not (Parkhe, 1993). The risk

stemming from opportunism has two dimensions: the probability that Partner 1 will behave opportunistically, and the extent of loss incurred by Partner 2 if Partner 1 does (Nooteboom et al., 1997). It is the alliance managers that must make the decision, on behalf of the partners, to refrain from acting opportunistically. Forbearance, like trust, evolves through interactions between alliance managers. Buckley and Casson (1988) argued that a party with a reputation for forbearance gives partners a greater incentive to forbear themselves, because it increases the likelihood that, if they forbear, the venture as a whole will be a success. Trust can lead to forbearance, which in turn can lead to increased trust.

### ***Governance Structures***

The nature and form of JV governance structures evolve over time as the JV strategy evolves and partners interact. The level of trust between the partners will influence the choice of governance structures. Non-contractual safeguards are more likely when there is a high level of trust between the partners. Governance costs under conditions of distrust will be greater and procedures will be more formal, such as more detailed contract documentation, more frequent board meetings, closer scrutiny by lawyers, and more communication between partner headquarters and the JV. These procedures will result in additional transaction costs to the JV partners (Dyer, 1997). Parkhe (1993) found support for the hypothesis that elaborateness of safeguards and the perception of opportunistic behaviour are directly related.

As the fear of opportunism fades because of the development of mutual trust, there may be a reduction in coordination and monitoring costs. Dyer (1997) argued that trust itself should be viewed as an efficient governance mechanism in interfirm relationships. Gulati (1995) made a similar argument, suggesting that firms may substitute trust for contractual safeguards when they form repeat alliances. Nooteboom et al. (1997:318) challenged this view, stating that "trust can only be considered an instrument of governance in a limited sense: it contributes to risk reduction, but it cannot be instituted instantaneously. If trust is not already present, it has to be built by developing bonds or shared norms and values."



The optimal governance structure will depend on various factors, such as alliance objectives, the level of investment, technological conditions, and partner time horizons.

### ***Relationship Investments***

The formation of a JV requires an investment in relation-specific assets. The risk associated with some of these JV assets is that they may have limited alternative uses in the event of JV termination. Although investing in specific assets is always a gamble, without them, the JV may be unable to develop the necessary complementary competencies for success (Nootboom et al., 1997). In the absence of detailed understanding of the partner, firms may be unwilling to make commitments to a JV without demanding an economic "hostage" (Williamson, 1983). In many IJVs, the foreign partner's technology often becomes a hostage because, in the event of JV termination, the local partner may be able to preserve asset values by employing the technology in an autonomous operation. The foreign partner's hostage may be its access to local knowledge (Inkpen and Beamish, 1997). Since hostages provide initial protection from opportunistic behaviour, the presence of hostages will usually create an environment in which trust has a better chance of developing. Nevertheless, when hostages are unilateral or one partner believes that a hostage was "demanded," probably by the stronger partner, a hostage may have the appearance of an exercise of power.

Subsequent to the JV formation, the partners often will be faced with additional investment decisions involving expansion or shifts in strategic direction. Inkpen and Currall (1998) propose that the willingness of JV partners to make subsequent investments in relation-specific assets will be related to the level of inter-firm trust that has developed over the life of the JV. There are two differences between initial investments prior to JV start-up and subsequent investments. First, young alliances often rely on hard, formal, deterrent-dominated governance since they have yet to develop a soft, informal, trust-based understanding between the partners (Parkhe, 1993). By the time subsequent relation-specific investments are required, the partners will have worked together and a high or low level of trust will be established. Therefore, subsequent investments will be able to take into account the relationship history. Second, subsequent



investments, unlike initial investments, will have less of a "make or break" impact on JV performance.

### *Increases in JV Scope*

When a JV is formed, the agreement will establish the strategic breadth of the entity, partner tasks, interface design, and usually, the expected duration of the agreement. Doz (1996) described this stage as the alliance initial conditions, the conditions that establish the alliance scope. In turn, the scope will influence the JV structure, assignment of management, the establishment of administrative policies, and the initial relationship between the partners. After start-up, the scope and objectives of JVs often change as strategic priorities shift and as trust, between the partners, increases. Initially, partners may be uncertain about their partner's competence and reputation. As the JV ages and trust develops, the partners may decide to increase the JV scope. Often, firms place limits on the scope of their JVs because of market uncertainties and limited information about their partner (Doz, 1996).

### *JV Performance*

Trust ensures a sound and cooperative working relationship between the JV partner firms. The higher the trust, the more efficient the JV will be in transforming an input of cooperation into a collaborative output (Buckley and Casson, 1988). Madhok (1995) suggests a foundation of trust, although time-consuming and expensive to create, can contribute to the sustained continuation of cooperative relationships. Parkhe (1993) argues as trust increases and the fear of opportunism fades, there is a declining role for contractual safeguards, leading to lower compliance and coordination costs. A lack of trust in a cooperative relationship can lead to a situation in which one or both partners believe their alliance efforts are unproductive, resulting in a downward spiral of poor performance, and dissatisfaction with the relationship (Smith and Barclay, 1997). Recently, Li et al. (2006) also found that the development of trust in overseas headquarters among local senior managers in uncertain environments is important for IJV performance, and Wang and Nicholas (2005) suggested that process-based trust affects the performance of contractual joint ventures.

Yan and Gray (1994) suggested that performance may have a feedback effect on trust. Poor performance may cause distrust between the partners, which leads to poor long-term JV performance (Killing, 1983). A firm's review of past JV results, in comparison with expectations, can lead to a firm's prediction of the extent to which the partner firm will follow through on its current promises (i.e., is trust in the partner warranted?). If JV performance is worse than expected, JV partners are likely to question the competence and capabilities of their partners. The level of trust in the relationship will therefore suffer accordingly. Inkpen and Currall (1997) found support for the argument that trust has an indirect effect on performance mediated by forbearance. Both Park and Ungson (1997) and Saxton (1997) found a positive relationship between antecedents of trust and alliance outcomes.

Although it is commonly accepted that trust is a critical variable in the success of IJVs (Beamish, 1993; Fryxell et al., 2002), it may have different effects on outcomes depending on the internal and environmental factors with which it interacts. Zaheer and Zaheer (2006) argued that levels of trust differ across international borders, and hence both the nature of trust and the institutional and cultural support for trust can vary across national contexts. They developed a model that suggests that collaborative partners from different countries are likely to bring either symmetric or asymmetric conceptions of trust to a business relationship, and thus the effect of trust on firm performance is not always a direct relationship.

Luo (2002) examined the trust–performance link in international strategic alliances (ISAs) and argued that the trust–performance link varies according to its underlying contingency variables such as alliance age, risk commensuration, market uncertainty, resource interdependency, and reciprocal commitment. The analysis of 255 ISAs in China suggested that trust plays a stronger role in improving ISA performance such as sales and profitability when an alliance is younger, risk is more commensurate between parties, market is less volatile, interpartner dependency in resources is greater, and commitment to the ongoing partnership from each party is higher. Cultural distance



between alliance parties did not moderate the trust–performance link but influenced the level of trust.

Nielsen (2007) considered the relationship between subjective, multidimensional measures of joint venture performance and predictors of success both before the alliance is formed (pre-alliance formation factors) and during the operation of the alliance (post-alliance formation factors). The empirical study, based on a web-survey, investigated a sample of Danish partner firms engaged in 48 equity joint ventures and 70 non-equity joint ventures with partners from around the world. The results showed a significant relationship between alliance performance and trust.

Ng et al. (2007) examined the role of trust between the parent companies of IJVs and suggested that trust between parents is not only a major predictor of the achievement of financial and non-financial goals by IJVs as reported in the literature, but also moderates the relationship between IJV performance and certain contextual factors. Based on the responses of senior executives of IJVs and their parent companies in China, they concluded that trust influences IJV performance. The moderating effects of trust on the relationships between IJV performance and local reliance and the experience of executives were confirmed for the senior executive sample.

### **2.3.8 Trust-Control Relationship**

The three dimensions of control; the extent of control, the focus of control and control mechanisms were discussed in section 2.1 of the literature review on IJV control and autonomy. Child and Mollering (2003) suggest that bringing control in an uncertain context helps establish familiarity and predictability, which are the necessary conditions for trust development. One view regarding the relationship between trust and control is that trust is simply a specific type of control mechanism. Another point of view is that trust itself is not a control mechanism but is a substitute for hierarchical control in organizations (Aulakh et al., 1997; Zaheer and Venkatraman, 1995). As Leifer and Mills (1996: 129) put it, "While trust might be seen as a reason not to use objective controls, trust is not, in and of itself, a control mechanism". Ring and Van de Ven (1994) discuss

the substitutive relationship between formal legal contract (control) and psychological contract (trust) in interfirm cooperation.

Madhok (1995) also argues that managing opportunism and relying on trust are two alternative approaches in managing joint ventures. Because trust involves a positive attitude about others' motivations, conceptually, it is not about influencing and affecting others' behaviour but is about believing that others will perform whatever serves the trustor's best interests, even in the absence of control. Thus, trust not only cannot be a control mechanism but it also implies the exclusion of deliberate control over the behaviour of others. In fact, to trust and to control seem to be two completely different kinds of approaches. When it is possible to fully trust a partner, there is no need to control its behaviour. Control comes into play only when adequate trust is not present. Although many researchers have treated trust and control as substitutes, an implicit assumption in the literature is that there is a complementary relationship between the two—that is, the more there is of trust, the less there is of control, and vice versa (e.g., Inkpen and Currall, 1997; Leifer and Mills, 1996), as elaborated below.

The selection, development and implementation of control mechanisms, such as budgets, planning systems, and cost-accounting systems can be expensive (Simons, 1991). Trust is not free either; trust building is a planned activity and takes considerable resources from organizations over time. Creed and Miles (1996) have made it explicit that one has to simultaneously consider costs of control mechanisms, costs of failing to reach minimal levels of trust, and costs of trust building. Since both trust and control are costly to come by and jointly contribute to the level of confidence, scholars have argued that organizations will not pursue an excessive level of confidence in any given situation. For strategic alliances this means that to reach a minimum level of confidence in cooperation, partners can use trust and control to complement each other (Beamish, 1988).

Despite the merits of this cost-based argument, a complementary relationship between trust and control may not be useful in a general sense, because there is no common level of confidence that is minimally acceptable to everybody. Partner firms will demand



different confidence levels that they feel are needed, and these levels will be affected by a number of factors, including partner firms' risk propensity (Sitkin and Pablo, 1992; Sitkin and Weingart, 1995), the type of knowledge involved (Chesbrough and Teece, 1996), the amount of resources committed (Blodgett, 1991), the objective in the alliance (Bleeke and Ernst, 1995), and the type of alliance. Thus, the level of trust and the level of control may not be related in a strictly inverse manner, if the confidence level fluctuates from partner to partner and from case to case.

A supplementary relationship, by comparison, seems to describe the dynamics more realistically (Das and Teng, 1998). That is, the trust level and the control level jointly and independently contribute to the level of confidence in partner cooperation, which may vary greatly for different partner firms. A higher trust level does not automatically dictate a lowering of the control level, and vice versa. All it means is more confidence in partner cooperation predicated upon certain levels of trust and control functioning as parallel phenomena.

### **2.3.9 Effect of Control Mechanisms on Trust Level**

The relationship between control mechanisms and trust is far from clear in the literature. In essence, the dispute is about whether the deployment of control mechanisms damages trust among exchange members. Argyris (1952) notes that control mechanisms imply that one party does not trust the other. Since trust has the characteristic of reciprocity, this may evolve into a vicious cycle, tending toward trust dissolution. Following this logic, control mechanisms will undermine the trust level in strategic alliances. Nevertheless, those holding the contrary viewpoint maintain that control mechanisms, if used properly, may help build mutual trust (Goold and Campbell, 1987). The basic argument here is that, because control mechanisms provide a "track record" for those who perform well, trust between the parties may eventually be nurtured and strengthened. Thus, a track record and an objective evaluation process are more conducive for generating trust than a subjective evaluation process.

Sitkin and Roth (1993) report limited effectiveness of legalistic remedies (i.e., formal rules and contracts) for building trust. Hence, it appears that the nature of formal controls is at odds with a trusting environment, which suggests a negative relationship between formal control and trust level. This is also the case with strategic alliances. When extensive contractual safeguards, such as lawsuit provisions, are featured, a sense of suspicion rather than trust tends to dominate the relationship. Each alliance has a contract but the difference is in terms of the degree to which process and conduct are specified. In their study of IJVs, Cullen et al. (1995) found no support that formal control led to more commitment in alliances. Also Sitkin and Stickel (1996: 209) found that formal control systems "can lead to escalating distrust if they are ill-suited to the task at hand". The implication is that poorly designed formal control mechanisms can undermine trust.

Social control in alliances often takes the form of socialization, interaction and training. Some natural by-products of socialization and interaction are better understanding and shared values, which then lead to interfirm trust (Creed and Miles, 1996; Madhok, 1995). Moreover, social control often provides a supportive environment for partner firms to understand the process and objective of alliance management, which is often ambivalent at the beginning (Doz, 1996). Thus, considerable overlaps exist between social control mechanisms and trust building. Scholars have found empirical support for a positive relationship between social control and trust level (Aulakh et al., 1997). With the presence of inter-firm trust, control is less likely to backfire, as partners understand each other better and are more willing to exercise mutual forbearance. Although a good level of control requires the presence of trust, trust per se is unlikely to be a direct attribute of control (Leifer and Mills, 1996).

Inkpen and Currall (2004) explore the relationship between trust, control and learning within joint ventures, as they develop over time. They argue that the presence of clearly defined collaborative objectives will foster the initial development of trust between JV partners. The greater the initial level of trust between partners, the more they can rely on informal social controls and the lower will be the initial costs of monitoring and controlling the JV. If a heavy reliance on formal controls can be avoided, this in turn is



likely to foster the development of trust. Repeated interactions between the JV partners and their staffs that are viewed as successful will enhance their mutual trust. As the partners learn more about each other, the more likely they are to reduce their emphasis on formal JV controls and this should also enhance mutual trust.

### **2.3.10 Summary**

Companies are increasingly pooling their costs, risks, and rewards in international alliances, which have emerged as a major competitive weapon. The relations between companies are now marked less by frontal attacks between direct competitors, and more by the potential for flank attacks and hidden agendas, in short, ties where trust will play a growingly important role as a counterweight to the potential hazards in forming alliances. Consequently, understanding trust in international alliances, and using this understanding to effectively build trust, have become crucial management tasks. The simultaneous popularity of IJVs and dissatisfaction with their performance indicates the need for greater attention to, and a more sophisticated understanding of, the process of governing them.

The structural arguments of the ownership-centred approach were examined and showed that relationship-oriented approach, revolving around trust, is largely consistent with the ownership-centred arguments. Overemphasis on the contractual aspects of the exchange results in inadequate attention being paid towards management of the social dimension. Where the contract-centred approach emphasizes the attainment of efficiency and flexibility in making decisions through more direct and legalistic means of control, the relationship-centred approach emphasizes the attainment of flexibility and efficiency through more subtle normative mechanisms. In spite of their differences, the two complement one another and neither one can be neglected. A more comprehensive definition of transaction costs which includes the costs associated with not only the contractual opportunism-avoidance orientation but also with the more cooperative value-creation orientation, and the interrelationship between the two, would facilitate a shift in this direction.

One of the key questions for partners in strategic alliances is whether to trust or to control. Trust and control are two alternative sources in developing confidence in partner cooperation, although the two are not linked by a simple complementary relationship. Although some theorists have suggested that trust is itself a control mechanism, the existing literature is unclear on this point and it was argued trust cannot be a control mechanism. Trust was defined as a positive expectation about others' motives, and control as the process of regulating others' behaviour to make it more predictable. A more appropriate construction of the relationship would be of a supplementary character, which would disentangle the tightly coupled conception of the trust-control relationship evident in the literature, thereby facilitating the consideration of the two concepts on their own terms.

Although trust and control are parallel concepts, they are not completely independent in the sense of being isolated from each other. In fact, the deployment of control mechanisms may either enhance or undermine the trust level, depending on the specific type of control mechanisms, partners use. Furthermore, trust level plays a moderating role between control mechanisms and control level. In other words, trust level will facilitate the deployment of control mechanisms, even though some of these very mechanisms may be suggestive of a lack of trust. The conventional wisdom is that one should employ control mechanisms when adequate trust is wanting. In fact trust should be developed whenever it is deemed appropriate. However, trust building can be costly, for considerable organizational resources are necessary, in some form or other.

In the literature, trust between partners is suggested to be an important factor that contributes to the success of IJVs (Currall and Inkpen, 2002; Inkpen and Currall, 2004; Madhok, 2006). Beamish (1993, 2006) supported the view that trust is important for the success of joint ventures in developing countries, and as trust can be easily managed, it can be viewed as a means to facilitate the achievement of the objectives of an IJV (Sheppard and Tuchinsky, 1996). However, large-scale empirical studies on the role of trust in transitional economies have rarely been conducted (Beamish, 1993; Lane et al., 2001). The phenomenon of trust has yet to be fully comprehended and doubts continue



with regard to the sufficiency of social sanctions based on trust (Carson, Madhok, and Wu, 2006) and the complementary versus substitutional relationship between trust and contract (Dyer and Singh, 1998; Poppo and Zenger, 2002).

This section, the third section of the literature review, has reviewed the literature on trust between joint venture partners. The next section considers the performance of international joint ventures.

## **2.4: PERFORMANCE OF INTERNATIONAL JOINT VENTURES**

### **2.4.1 Introduction**

Research on international joint ventures (IJVs) has continued to attract the attention of international business scholars in light of IJVs' popularity and their overall unsatisfactory performance (Choi and Beamish, 2004; Geringer and Hebert, 1989; Luo, Shenkar, and Nyaw, 2001; Yan and Gray, 1994). Lee and Beamish (1995, p. 638) point out that JV performance is an important issue partly because of the costs of poor performance imposed on the parent firms, but also because of the social costs of poor performance which have to be borne by the country in which the JV activity occurs. Poor performance in JVs according to Beamish and Delios (1997b) may be attributed to lack of congruity (alignment) of objectives in performance measures at the time of JV formation. Efforts to identify variables associated with IJV performance, and that might thus be managed in order to influence venture outcomes, have been constrained by continued disagreements regarding the comparability and reliability of alternative performance measures, and the methodology for collecting such data.

Yan and Gray (1994) note that the prior literature on JV performance indicates three areas in which major inconsistencies occur. First, whose perspective is used for performance measurement—that of one parent, two parents, or the JV management? Second, variations occur in performance measures which may range from financial performance indicators to subjective perceptions of performance. Third, the appropriateness of different performance measures changes as a JV matures. Moreover, these inconsistencies make cross-study comparisons and generalisations about JV performance particularly problematic. The debate over JV performance measures is clearly a sub-set of wider concerns regarding the assessment of organisation performance in general, in which the evaluation of JV performance is a particular challenge.



#### **2.4.2 Measures of Performance – Objective versus Subjective**

The definition and measurement of organisational performance has been a controversial topic for theorists from a variety of fields, as well as for management practitioners in all sorts of organisations (Kanter and Brinkerhoff, 1981; Venkatraman and Ramanujam, 1986; Mohr, 2006). Prior research evidences significant differences in the operationalization of IJV performance. Early studies used a variety of financial indicators typically employed in business research, such as profitability, growth and cost position (Tomlinson, 1970; Good, 1972; Renforth, 1974; Dang, 1977; Lecraw, 1983). Others have used objective measures of performance such as the survival of the IJV (Franko, 1971; Stopford and Wells, 1972; Raveed, 1976; Killing, 1983; Geringer, 1990), its duration (Harrigan, 1986; Kogut, 1988), instability of (significant changes in) its ownership (Franko, 1971; Gomes-Casseres, 1987), and renegotiation of the JV contract (Blodgett, 1987). Yet, these financial and objective measures embody potential limitations that are critical to evaluation of IJV performance.

The multitude of measures used by academic researchers to assess JV performance is indicative of the way parent companies and JV managers evaluate JV performance, which in turn is a reflection of the variety of reasons for establishing JVs (Contractor and Lorange, 1988; Porter and Fuller, 1986; Glaister and Buckley, 1996). Two of the main objective performance measures used to assess JVs between firms from advanced market economies have been survival (i.e. whether the JV has been terminated or not), and duration or longevity of the venture. Both of these measures are subject to criticism; for instance, termination of a venture may indicate successful completion of the JV task and not JV failure (Gomes-Casseres, 1987), and duration of the venture may be prolonged in the hope of “making it work” rather than because it is operating successfully. In any event a sole indicator of performance, where many objectives may exist for the JV, cannot indicate the extent to which all of the objectives have been achieved for the JV.

Anderson (1990) notes that JVs may be more commonly used in highly uncertain settings with a very long term performance horizon and no current performance baselines for comparison. In high risk or uncertain settings short-term financial measures would tend

to indicate poor performance, although the venture may be making satisfactory progress towards long-term goals, or achieving current non-financial goals. In this respect, it should be recognised that JVs may not be intended to fulfill standard financial objectives such as profit generation, but are instead formed to achieve a range of objectives, for example, to enhance parent learning (Kogut, 1988), or to improve the strategic positioning of the parent firms (Contractor and Lorange, 1988) including a presence in new markets (Glaister and Buckley, 1996). Anderson (1990) argues that parents need to recognise that most JVs should be evaluated more subjectively over a longer time horizon than is typically used. Resorting to formal, financial measures of performance is likely to lead to early termination before a JV has had enough time to realise its potential.

There is also the problem of not reporting financial data concerning joint venture performance. Even if they are reported, they are likely to be in consolidated corporate data which may not be used for the assessment of the joint venture concerned. Geringer and Hebert (1991) also argue that parent firms usually have different objectives and means of generating financial returns, including supply contracts, management fees, technology licensing fees, royalties, and transfer pricing. If available, these figures are seldom incorporated into calculations of IJV performance. Financial measures may also fail to reflect the extent an IJV has achieved its short and long-term objectives (Killing, 1983; Artisien and Buckley, 1985; Anderson, 1990). This is particularly pertinent for developing country joint ventures, because IJVs formed in these countries may not be able to generate financial profit for a long time.

Due to potential limitations and difficulties associated with the ability of financial and objective measures to gauge the efficacy of IJVs, as well as the difficulty in obtaining such measures, several researchers turned their attention away from objective measures towards subjective measures of parent managers' satisfaction with IJV performance (Killing, 1983; Schaan, 1983; Beamish, 1984). The performance measure Yan and Gray (1994) used, for instance, was the extent to which a JV's partners had achieved their strategic objectives in initiating the JV. Killing (1983), Schaan (1983) and Beamish (1984) used a single-item perceptual measure of a parent's satisfaction with an IJV's



performance (e.g. “To what extent has the IJV met the expectations of your firm?”). The main advantage of perceptual measures is their ability to provide information regarding the extent to which the IJV has achieved its overall objectives. A key contribution of the study by Geringer and Hebert (1991) is the comparison of objective and subjective measures of JV performance. They found that subjective satisfaction measures of JV performance and performance relative to initial objectives were significantly positively correlated to objective measures of JV performance.

Subjective performance measures are also subject to criticisms; these types of measures have suffered accusations of serious limitations and biases. As these measures are subjective and rely on the judgement of managers, the respondents’ frame of reference and personal values may severely influence the evaluation of IJV performance, for example, some managers may be reluctant to recognise the extent to which things are going wrong when they are actually going wrong (Schaan, 1983:339). Also, the performance criteria used by the respondents to assess the level of IJV success may not necessarily be the same. It may be argued that, despite their shortcomings, the subjective performance measures are a better reflection of underlying JV achievement than the objective performance measures discussed here. This is because, in a sense, the subjective measures are a more direct measure of performance in that the respondents should be aware of the goals of the venture and, therefore, should be able to make an assessment of the performance of the venture in light of these goals.

#### **2.4.3 Determinants of JV Performance**

A number of authors have noted that when conducting or comparing organisational performance studies it is important to specify whether it is the variables that *predict* performance, or the variables that *indicate* performance, that are of interest (Lewin and Minton, 1986; Cameron, 1986). Similarly, Anderson (1990:21) argues that a major reason for the controversy stems from a lack of clarity about what an *indicator* of performance is and what a *determinant* of performance is. To exemplify this situation, Anderson (1990) gives an example of employee satisfaction which is often used as an indicator of a high performing organisation. However, others classify satisfaction as a



determinant of performance, and still others ignore satisfaction entirely on the grounds that it is neither indicator nor determinant.

Many factors have been suggested in the literature as potentially important determinants of JV performance (Glaister and Buckley, 1999). These include partner- and task-related variables, firm and industry related factors and managerial and host country related factors. Partner- and task-related factors found to have an impact on JV performance include: partner needs, trust and commitment (Killing, 1983; Beamish, 1988; Cavusgil and Zou, 1994; Jarrillo, 1988); partner asymmetries and the extent to which the businesses of partner firms are related, and their influence on JV success (Harrigan, 1988; Koh and Venkatraman, 1991; Pfeffer and Nowak, 1976).

Industry related factors considered to have significant influence on JV performance are technology level and stage of industry development, i.e. if the industry is in the embryonic, growth or mature stage (Thorelli, 1986; Gomes-Casseres, 1988). The managerial factors include ownership, control exercised by partners and operational autonomy (Schaan, 1983; Rafii, 1978; Killing, 1983; Beamish, 1984; Kogut, 1988; Geringer and Hebert, 1989; Blodgett, 1991). Joint ventures formed with host country governments were found to be more profitable than those formed with private sector enterprises (Beamish, 1984). The environment under which JVs operate was also found to influence performance. This may encompass the host country political system, economic development, legal system, national culture and government policy towards foreign investment (Hamel, 1991; Inkpen, 1992).

In research relating to firm-related variables, some researchers have suggested an adverse effect of parents' firm size asymmetry on joint venture performance, due to a mismatch of strategic priorities and influence. However, this has not been consistently substantiated empirically (Harrigan, 1988; Killing, 1983; Kogut, 1988). The past joint venture experience of the parent firms was postulated to have a positive influence on performance. Experience would lead to an accumulation of knowledge about doing business in host countries, with positive consequences for joint venture performance.

However, the empirical evidence is conflicting (Blumenthal, 1988; Harrigan, 1988; Makino and Delios, 1996). The resource complementarity of partners is a prime reason for the formation of collaborative joint ventures (Hamel, 1991; Geringer, 1991; Beamish 1984) and has been extensively researched. Johnson, Cullen, Sakano, and Takenouchi (1996) found that partners' complementarity contributed to the building of trust in the joint venture for the U.S. partner, but not for the Japanese partner.

The impact of country-related factors, such as cultural differences on a firm's preference for international collective ventures, has been examined (e.g. Kogut and Singh, 1988; Shane, 1994). Their impact on success and failure of a JV has also attracted attention (Franko, 1971; Li and Guisinger, 1991; Parkhe, 1991; Geringer and Hebert, 1991) but findings are not conclusive. Li and Guisinger (1991) found positive relationships between cultural dissimilarities and failure rates, which was contrary to Franko's (1971) findings. The different and often crude methods of measuring cultural distance seem to be responsible for these conflicting and inconclusive results. Franko (1971) subjectively ranked countries according to their cultural proximity to the US, while Li and Guisinger (1991) categorised countries as similar or dissimilar using Hofstede (1980) indices, which might be dated.

Hatfield and Pearce (1994) concluded that (using data from US firms involved in manufacturing joint ventures) to evaluate the performance of a joint venture one must measure achievement of multiple goals, many of which are non-financial in nature. Multiple goals capture the diversity of motivations between partners, which is very important because partner goals are partner-specific, that is, the goal set varies by partner. Goal achievement offers promise as a non-traditional planning and evaluation method for evaluating performance of joint ventures that face high levels of uncertainty and long delays in reaching net positive cash flows and profitability.

The strategic management literature strongly supports the notion that organizational performance and survival can be understood more fully by examination of the top management decision-making process, which is a firm's primary means for making



crucial operating and strategic choices (Child, 1972; Thompson, 1967). Pearce (1997) focuses on explaining JV performance and survival in terms of the top management team (TMT) decision-making process within the JV firm. According to the transaction cost analysis presented, the JV form of governance is less efficient than the more traditional hierarchy, that is, *ceteris paribus*, governance costs are higher for JVs. Pearce (1997) explains how the essential nature of the JV organizational form makes it relatively more susceptible to both bargaining costs and the onset of extreme forms of political behaviour within the TMT. By building on the position of Milgrom and Roberts (1990), Pearce (1997) argues that both political influence and bargaining activity are antagonistic to efficiency in the TMT decision-making process, undermining adaptability, performance, and survival.

### *Congruity of objectives*

In seeking an explanation for the persistently reported poor performance of IJVs, Beamish and Delios (1997) identify a partial explanation in parent and IJV congruity in defining performance. They argue that there is a strong theoretical basis for the study of the relationship linking objective congruence and performance. Beamish and Delios (1997) point out that negative performance outcomes from a lack of goal congruity among managers has long been identified (for example, Child, 1974) and empirical disagreement among managers about the objectives of the organisation has been found to impair performance (for example, Bourgeois, 1980). Beamish and Delios's (1997) anecdotal empirical evidence highlights the importance of establishing congruity in performance objectives when establishing an IJV. Beamish and Delios (1997) conclude that when partners exhibit a consensus, or congruity, about the objectives and strategies of the IJV, higher performance is observed. Conversely, where congruency has not been established, poor performance results.

### *Interdependence of resources*

From a resource-based view, the advantage of JVs is based on the adequate integration of the resources provided by the various partners for their common use. Hence, the way these resources are linked will have a significant influence on the performance of the

relationship (Das and Teng, 2000; Madhok and Tallman, 1998). Research indicates the importance of firms complementing each other in terms of resources and capabilities when formalizing a cooperative partnership (Dyer and Singh, 1998; Hill and Hellriegel, 1994). The complementarity of resources creates mutual interdependency and facilitates the effectiveness of alliances (Harrison et al., 2001; Madhok and Tallman, 1998; Parkhe, 1991). Complementarity may be understood as the degree to which partners can provide the JV with resources and capabilities that could collectively generate higher rents than when put to use by each individual firm separately (Dyer and Singh, 1998).

### *Parent capability*

The value of the partners in a relationship depends on resources in the form of assets, but also on their capabilities in the alliance context (Nooteboom, 1999). Capabilities and familiarity of the partners with the tasks that are the subject of cooperation must be considered (Killing, 1988). The greater the capabilities of the partners in relevant areas of the cooperation activity, the less complex will be the task that they are undertaking and performance of the JV will be enhanced (Killing, 1988; Shamdasani and Seth, 1995; Stuart, 2000). The past JV experience of the parent firms is likely to have a positive impact on performance (Sim and Ali, 1998). For example, if the partners of a JV are shown to have experience and a high level of competence and reputation in managing a JV the more likely it will be successful. Firm size has been found to be an important variable affecting firm performance (Pan and Chi, 1999; Smith, Guthrie and Chen, 1989; Merchant, 2000; Pan and Li, 2000). Resources are defined as inputs to the production process, while capabilities are the ability to co-ordinate and deploy resources to perform tasks (Kazanjian and Rao, 1999). Resources are closely linked to firm size and consequently firm performance. This is because large firms are likely to have better access to financial resources that are required to hire managerial expertise and to support research and development which enhances the firm's competitiveness and performance.

### *JV management capabilities*

Management capabilities are key contributors to the entire bundle of firm resources that enable some firms to generate rents (Castanias and Helfat, 1991, 2001; Combs and



Ketchen, 1999). Managerial capabilities represent some of the most valuable, unique and hard-to-imitate resources and, consequently, their quality has important implications for firm performance (Castanias and Helfat, 1991, 2001; Peng, 2001). In particular, as the executive who is ultimately responsible for organizing and directing the resources of the JV, the JV general manager has the potential to create rents by using his or her human capital to make and implement strategic and operational decisions. In addition, the general manager will perform the difficult task of maintaining cohesion within the group, acting as a mediator in resolving conflicts. In this way, his or her leadership and negotiation capabilities will provide an incentive for the active behaviour of the members and will contribute to an appropriate level of cohesion inside the group, which will also have a positive effect on the JV performance.

### *Control and Autonomy*

“IJV control and autonomy” was discussed in section 2.1, the first section of the literature review. Control in an IJV can be defined as the process through which parent companies ensure that the way the JV is managed conforms to their interest (Schaan, 1983). According to Geringer and Hebert (1989), control is a complex concept involving several dimensions: (i) mechanisms of control (equity ownership, representation in management bodies, technical superiority, and management skills, etc); (ii) extent of control (whether one or more partners play an active role in decision-making); and (iii) focus of control (the scope of activities over which parents exercise control). These dimensions are complementary and interdependent (Hu and Chen, 1996). While many tests of the relationship between control and performance in joint ventures have been conducted (Geringer and Hebert, 1989; Hebert, 1994; Yan and Gray, 1994; Mjoen and Tallman, 1997), the empirical results have been conflictual, and there lacks a unifying theoretical rationale for explaining this relationship.

Killing (1983) suggests that dominant control JVs tend to be more successful than equally shared management ventures. Shared ownership often inflicts managerial conflicts (Gomes-Casseres, 1989), thus exerting a negative effect on performance. Both transaction costs theory and agency theory predict that the partner with greater control of

the IJV will use the common pool of resources to pursue its own interests (i.e., to achieve its own objectives) rather than those of its partner or the best interest of the IJV overall. Co-ordination between partners entails significant costs that make many alliances transitional rather than stable arrangements (Porter, 1990). Reducing the risks associated with co-ordination can minimise transaction costs and stabilise the JV (Inkpen, 1995). Dominant ownership, therefore, provides a mechanism for keeping transaction costs to a minimum and achieving JV stability (Hennart, 1988).

Killing (1983) found that there existed a common pattern of shared management IJVs in decline: poor venture performance leads the partner firms to monitor the IJVs' activities closely, which lowers the autonomy of IJV managers. Low autonomy of IJV managers and high intervention from the partners are likely to slow and confuse the decision making process in the IJVs, which may cause performance to worsen further. This in itself encourages the partners to become even more closely involved and therefore the downward cycle continues. The study by Zhang and Li (2001) and Killing's work (1983) have revealed a critical issue in IJV management: independence (or autonomy) and success are twins in IJVs from a dynamic view. Indeed, these two studies describe the same coin from different sides. While Killing (1983) found that low autonomy may cause failure and failure further lessens autonomy, the study by Zhang and Li (2001) suggested that high independence will lead to success and success further enhances independence. However, Zhang and Li's study has advanced Killing's (1983) study by addressing how an IJV evolves across the three types of IJV control designs while Killing's study focused on shared management IJVs.

The relationship between equity control and IJV performance has continued to receive much attention as equity ownership is recognized as an essential mechanism to maintain control (Lu and Hebert, 2005). A basic premise of ownership control is that a full or majority ownership provides the parent company with the ability to secure desired performance outcomes by aligning the IJV with corporate company objectives (Das and Teng, 2001). A high control parent will have a greater onus of responsibility for the performance outcomes of the JV than is the case for a low control parent. According to



Glaister and Buckley (1998), the high control parent is, therefore, more likely to associate its degree of control with JV performance and will, in consequence, be inclined to adopt a more favourable perspective on the performance outcomes of the JV. The importance of control on performance increases as organizational size and complexity increase. IJVs, as a complex organizational form, require the close attention of managers to monitor, coordinate, and integrate the activities of the organization. Dominant control is a mechanism for reducing the risks associated with coordination and opportunistic behaviour, and, consequently, for minimizing transaction costs.

However, the suggested relationship between dominant ownership and success as observed by Killing (1983) has not always been consistent with empirical evidence. Beamish (1984) reported that among twelve IJVs formed in less developed countries performance was negatively related with the level of control from foreign partners. In a study on JVs in developed countries, Kogut (1988) found no relationship between control and performance. Tomlinson (1970) reported that when parents showed a more relaxed attitude to control over JVs, the level of profits were higher. Franko (1971) also found that JVs were more stable when parents demanded less control. Blodgett (1991), using ownership to measure control and stability to measure performance, found that 50–50 shared management arrangements had a greater chance for long life than majority owned ventures. Also using financial ownership as the indicator of decision-making control, Bleeke and Ernst (1991) concluded that JVs with an even split of ownership were more likely to succeed than those in which one partner held a majority interest. When partners have equal ownership, there will be pressure on both sides to make accommodation to the JV to protect their investments and therefore, both partners will be committed to making the JV successful. In a majority owned JV, one partner may have the ability to configure the venture in a manner that is undesirable to the other partner(s).

Despite inconsistent evidence to date, the association between ownership control and IJV performance seems undeniable (Lu and Hebert, 2005). While Yan and Gray (1994) found that the pattern of management control was directly related to JV performance in a case analysis of US–China JVs, this was not consistent across all cases. A number of variables

that might moderate the direct relationship between control and performance were identified by Yan and Gray: the level of trust between the partners, the commonality of their strategic objectives, and the level of institutionalisation of these objectives, i.e., whether or not they are contractual. The nature of management control exercised by parents will be a function of the age of the JV, with different configurations of control operating across the life cycle of the venture.

### *Cultural Distance*

“Cultural differences between join venture partners” was discussed in section 2.2, the second section of the literature review. Several authors have shown or hypothesized that different national cultures embody different attitudes, values and beliefs that find their materialization in distinct business cultures, styles and practices (England, 1975; Hofstede, 1980; Davidson, 1982; Deal and Kennedy, 1982; Schein, 1985; Schneider, 1988). For example, Ouchi (1981) examined the U.S. and Japanese business cultures and described them as mostly incompatible. The presence of dissimilarities between parent firms’ national cultures may be more likely to lead to differences in parent firms’ objectives for an IJV, as well as in their approaches to coordination, operating methods and strategy implementation (Root, 1982; Sullivan and Peterson, 1982; Geringer, 1988; Brown, Rugman and Verbeke, 1989). These dissimilarities may also lead to differences in the partners’ perceptions of each other and the IJV and result in a lower degree of agreement regarding IJV performance.

In contrast, in IJVs where parents are from the same national culture or nation, a tendency toward greater agreement among the parents and the IJV management regarding the venture's performance is expected. As shown by Anderson and Weitz (1989), cultural similarity promotes communication between business partners. With regard to alliance performance, internationalisation theory would tend to suggest that an alliance would be more likely to fail the greater the cultural distance between the home base of the partners. This reflects one branch of the literature which has maintained that similar cultural values can reduce misunderstanding between partners and that culturally distant alliances experience greater difficulty in their interactions. Communications



between culturally distant partners can be difficult, for example, compounding the coordination problems that exist in any partnership, leaving alliances vulnerable to managerial conflicts and early dissolution (Camerer and Vesalainen, 1988, Brown et al. 1989, Lane and Beamish 1990).

Other studies have reached a somewhat different conclusion. Park and Ungson (1997), for example, found that cross border joint ventures with partners from culturally distant countries have longer durations and are less likely to end than are domestic joint ventures. More specifically, with the effects of other variables controlled for, Park and Ungson (1997) found that larger cultural distances were related to a lower joint venture dissolution rate. However, when taking into account the interactive effect between prior relationships and cultural distance, the effect of cultural distance on joint venture dissolution became insignificant and the interaction term became significant. Sirmon and Lane (2004) argued that organizational culture differences will tend to be more disruptive than national culture differences. Similarly, Ozorhon et al. (2008) found that differences in organizational culture have a greater impact on IJV performance than differences in national and host country culture. Ozorhon et al. (2008) concluded that similarity between the national cultures of IJV partners has a negative effect on IJV performance.

Park and Ungson (1997) maintain that this significant interaction effect implies that a prior relationship between firms may provide a powerful counterbalance to cross-cultural differences negating the conflict and misunderstanding caused by cultural distance between cross-border partners. They maintain that this is consistent with Harrigan's (1988a) findings, with Bleeke and Ernst's (1993) case study result that cross-border joint ventures can overcome early difficulties caused by cultural differences, and with Barkema et al.'s (1996) suggestions that learning between partners may offset cultural differences. Whether similarities or differences in partner culture will produce better alliance performance is therefore hedged with a degree of uncertainty.

### ***Trust***

“Trust between joint venture partners” was discussed in section 2.3, the third section of the literature review. In the literature, trust between partners is suggested to be an important factor that contributes to the success of IJVs (Currall and Inkpen, 2002; Inkpen and Currall, 2004; Madhok, 2006). Trust ensures a sound and cooperative working relationship between the JV partner firms. The higher the trust, the more efficient the JV will be in transforming an input of cooperation into a collaborative output (Buckley and Casson, 1988). A foundation of trust, although time-consuming and expensive to create, can contribute to the sustained continuation of cooperative relationships (Madhok, 1995). As trust increases and the fear of opportunism fades, there is a declining role for contractual safeguards, leading to lower compliance and coordination costs (Parkhe, 1993). A lack of trust in a cooperative relationship can lead to a situation in which one or both partners believe their alliance efforts are unproductive, resulting in a downward spiral of poor performance, and dissatisfaction with the relationship (Smith and Barclay, 1997).

Development of trust among IJV partners can have a direct positive effect on performance. For example, if both partners exhibit what Barney and Hansen (1994) refer to as “strong form trust,” they can reduce the costs of governance mechanisms that would be required for lesser forms of trust and exploit exchange opportunities afforded by it, thereby gaining competitive advantage. Strong form trust is exogenous to an alliance’s governance structure and is derived instead from values, principles, and standards that the partners share. Thus, it is akin to Lewicki and Bunker’s (1996) “identity-based trust.” The presence of such trust should enable the parties to work out ambiguities in the contract, correct errors, cope with uncertainty, solve problems better (Crocker and Masten, 1988; Mohr and Spekman, 1994), and work to achieve integrative outcomes that allow all parties to satisfy their objectives (Pruitt and Lewis, 1977; Fisher and Ury, 1981; Lax and Sebenius, 1986).

Yan and Gray (1994) suggested that performance may have a feedback effect on trust. Poor performance may cause distrust between the partners, which leads to poor long-term



JV performance (Killing, 1983). A firm's review of past JV results, in comparison with expectations, can lead to a firm's prediction of the extent to which the partner firm will follow through on its current promises (i.e., is trust in the partner warranted?). If JV performance is worse than expected, JV partners are likely to question the competence and capabilities of their partners. The level of trust in the relationship will therefore suffer accordingly.

Using perception of opportunistic behaviour as a proxy for trust, Parkhe (1993) found a strong relationship between perception of opportunistic behaviour and alliance performance. Inkpen and Currall (1997) found support for the argument that trust has an indirect effect on performance mediated by forbearance. Both Park and Ungson (1997) and Saxton (1997) found a positive relationship between antecedents of trust and alliance outcomes. Mohr and Spekman (1994) found evidence of the effects of such trust satisfaction with profit in strategic alliances between automobile manufacturers and dealers. Similarly, Saxton (1997) demonstrated a positive relationship between shared decision making (indicative of trust) and performance. Recently, Li et al. (2006) also found that the development of trust in overseas headquarters among local senior managers in uncertain environments is important for IJV performance, and Wang and Nicholas (2005) suggested that process-based trust affects the performance of contractual joint ventures. Ng et al. (2007) suggested that trust between parents is a major predictor of the achievement of financial and non-financial goals by IJVs.

Although it is commonly accepted that trust is a critical variable in the success of IJVs (Beamish, 1993; Fryxell et al., 2002), it may have different effects on outcomes depending on the internal and environmental factors with which it interacts. Another way that trust can operate in IJVs is via an interaction effect with control. If trust is present, it can cut transaction costs by reducing the need for formal contracts (Bromiley and Cummings, 1995) and serve as an alternative mechanism to guard against opportunism (Hill, 1990; Barney and Hansen, 1994; Zaheer and Venkatraman, 1995). Both trust and control contribute to partners' confidence that their counterpart will "pursue mutually compatible interests in the alliance, rather than act opportunistically" (Das and Teng,

1998, p. 491). Consistent with this, Nooteboom et al. (1997) showed that trust reduced the probability of perceived loss for alliance partners.

It appears, then, that control and trust may interact to affect performance. Moreover, trust may influence performance differently under different control conditions. In shared-control IJVs, where trust is necessarily higher, control may be sufficient to predict performance. In dominant-control IJVs, however, trust may be a necessary companion of control, if high levels of performance are desired. This relationship was confirmed by research that found a positive association between trust and quasi-integration between independent insurance agencies and insurance companies (Zaheer and Venkatraman, 1995). It is important to note, however, that trust between the IJV partners can change over time (Hamel, 1991; Yan and Gray, 1994) and that its relationship to IJV performance may be reciprocal longitudinally (Killing, 1983; Gulati, 1995; Zaheer and Venkatraman, 1995).

### *Previous Relationships*

The desire and willingness to expend resources in the development of long-term relationships are closely linked to a firm's prior experiences with that partner and the extent to which positive or negative expectancies have been fulfilled. Hence, experience earned from prior engagement serves as evidence to justify subsequent risky steps beyond the accumulated evidence (Das and Teng, 1998). A further benefit of prior affiliation is that it allows the partner firms to know each other better thus facilitating a greater understanding of the respective capabilities and resources they are seeking to access and combine (Saxton, 1997). In addition, prior relationships indicate a history of repeated interaction, which may lead to relational advantages and stability (Gulati, 1995). Thus, from a game-theoretic perspective, giving incumbents an advantage in the next round serves as a signal to the partner that the focal firm is playing a long-run "repeated game" (Fudenberg and Levine, 1998).

Although affiliation has been empirically demonstrated to affect alliance behaviour and a propensity to engage with a firm (Gulati, 1995; Levinthal and Fichman, 1988; Nielsen,



2003), its impact on subsequent performance is less clear. For instance, Saxton (1997) found prior affiliation to be positively related to initial satisfaction but not to long-term benefits to partners. Ariño, de la Torre and Ring (2001) found prior experiences to be a critical determinant of future levels of relational quality. These direct experiences are likely to influence the parties' views of each other's capabilities and trustworthiness in the face of internal or external challenges. In JVs, where the likelihood of failure due to dissimilarities is high, this source of information about characteristics of the partner firm can save valuable time and agony in the early states of alliance formation. Hence, prior experience with a partner may increase the likelihood of predicting accurately expected behavior of the partner and thus reduce the potential for conflict.

### ***Other Long-term Relationships***

Kogut (1989) found that the likelihood of alliance termination is decreased when partners to the venture have other ongoing agreements. Kogut (1989) rationalises this finding by arguing that 'mutual forbearance' (Buckley and Casson, 1988) is enhanced when disrupting the venture may affect other transactions. This finding also supports the transaction cost explanation of hostage positions stabilising economic relationships (Kogut 1988, 1989). Kogut (1989) points out that an alliance is frequently only a part of a multiplicity of contracts between the partners. In order to understand the focal alliance it is therefore necessary to analyse it from the perspective of the total relationship, if not from its position in the wider co-operative network of the partners. According to Glaister and Buckley (1998) it would be expected that where other long term relationships exist between partners alliance performance would be better than in those alliances where the partners had no other long term relationships.

### ***Partners Actively Compete***

A common feature of much of the alliance activity over the past two decades has been the propensity for competing firms to establish alliances (Harrigan 1988b). The tensions faced by a parent firm in attempting to manage both a co-operating strategy and a competing strategy with a partner may, however, prove too difficult to reconcile. According to Glaister and Buckley (1998), if competitive rivalry should come to

dominate the co-operative relationship between the partners, for instance because of intensification of competition in a market that both partners serve, the desire of one to win in the competitive arena against the other may reach a higher level of priority than sustaining the benefits of the alliance. Therefore, Glaister and Buckley (1998) argue that the extent to which the parents actively compete in markets has the potential to destabilise the alliance relationship and ultimately worsen alliance performance. Also, where parent firms actively compete, this may also affect respondents' attitudes to the nature of the alliance and its perceived level of success.

### *Behaviour/Performance of Partner*

It is clearly difficult for one parent to know with certainty if the 'right' partner has been selected. Glaister and Buckley (1998) note that through the course of the operation of the venture, however, during which time the actions and the attitude of the partner can be observed, it should be possible for a parent to come to a view on this. To the extent that one partner considers the other partner is the 'right' one for the venture the more likely it is that the alliance will be a success and the more the first partner will be satisfied with the performance of the alliance (Glaister and Buckley, 1998). This point could of course be argued in the converse manner: to the extent that one partner is satisfied with the performance of the alliance the more likely it is that this partner will consider the other partner is the 'right' one for the venture. Thus while a correlation is expected between satisfaction of performance and the choice of the 'right' partner the causality of the relationship is ambiguous. Nevertheless, it is unlikely that performance of the venture would be considered satisfactory by one partner if the other partner were not considered the 'right' one for the venture.

Partly underpinning the notion of whether the appropriate partner has been chosen and the success of the venture will be the extent to which one parent believes that the views and attitudes to the management of the venture are compatible between the partners and furthermore on the perception of appropriate behaviour/performance in the activities undertaken by the foreign partner during the course of operation of the venture. This may be related to the degree of similarity between the partners in terms of organisational



processes. Saxton (1997: 447) has noted that the literature on diversifications has concluded that organisations must have similar cultures and approaches to strategic decisions (i.e. organisational fit) in order to achieve synergies.

### ***Integration of the Alliance***

Glaister and Buckley (1998) suggest that another aspect of the relative importance of the alliance to the partner firms is the extent to which the alliance is integrated into the operations of the partners. The more an alliance is integrated into the operations of the partner the more the relative importance of the alliance is likely to be to the partner (Inkpen and Birkenshaw, 1994). The fact that the alliance is more important for the parent may have no implications for its performance: The performance will be more important for the parent, but not necessarily better or worse. However, the perception of the overall success of the alliance is likely to be related to the extent of the integration of the alliance into the operation of the partner firm.

#### **2.4.4 Summary**

A large array of evaluating criteria have been used by previous researchers to assess joint venture performance which include a number of aspects, ranging from financial indicators to the meeting or fulfillment of expectations. A broader conceptualization of business performance would include emphasis on indicators of *operational* performance (i.e., non-financial) in addition to indicators of financial performance. The inclusion of operational performance indicators takes us beyond the "black box" approach that seems to characterize the exclusive use of financial indicators and focuses on those key operational success factors that might *lead* to financial performance. Concerns about the ability of financial and objective measures to gauge effectively international alliance performance, as noted above, have led several researchers to turn to perceptual measures of a parent's satisfaction with alliance performance.

Parkhe (1993) has identified four major dimensions of JV study in the prior literature: motives for JV formation, partner selection characteristics, control/conflict, and JV stability/performance, and in reviewing these lines of study he concludes that researchers

have non-cumulatively focused on different dimensions. It is the purpose of this study to attempt to relate two of the four core dimensions of JV study identified by Parkhe, those of the management/control of JVs and JV performance. As stated in section 1, the focus of the study is the investigation of the relationships between the factors influencing the management and the performance of IJVs. This study aims to incorporate the responses from parent firms to analyse the management of IJVs on a range of topics including control and autonomy of IJVs, trust between partner firms, cultural differences between partner firms and performance of IJVs.

While many tests of the relationship between control and performance in joint ventures have been conducted, the empirical results have been conflictual, and there lacks a unifying theoretical rationale for explaining this relationship. There are likely to be a number of moderating variables which will affect the direct relationship between management control and performance. Development of trust among IJV partners can have a direct positive effect on performance. Moreover, trust may influence performance differently under different control conditions. In shared-control IJVs, where trust is necessarily higher, control may be sufficient to predict performance. It appears, then, that control and trust may interact to affect performance. Whether similarities or differences in partner culture will produce better alliance performance is hedged with a degree of uncertainty.

This section, the final section of the literature review, has reviewed the literature on performance of international joint ventures. The third chapter, which sets out the research methods of the study, follows.



## **CHAPTER 3: RESEARCH METHODS**

### **3.1 Introduction**

This study examines the management and the performance of international joint ventures (IJVs). Chapter 2 reviewed the main theoretical perspectives regarding the management and the performance of IJVs. This chapter sets out the research methods employed to collect the data for undertaking the empirical analysis.

In conducting research, the most appropriate research methods should be considered prior to data collection (Saunders et al., 2002). Several data collection methods can be used for collecting survey data, including interviews, participant observations and self-administered questionnaires. Each of these data collection methods has advantages and disadvantages, as noted by Churchill (1987), Zikmund (2003) and Malhotra (1996). Consequently, it is maintained that the appropriateness of a data collection method depends mainly upon the overall research objectives, the research hypotheses formulated for testing and the characteristics of the population (Cragg, 1991).

This chapter outlines the advantages and the disadvantages of the research instrument, a self-completion questionnaire. This section also provides an overview of the questionnaire design process. The General Directorate of Foreign Investment (GDFI) database in Turkey and the OSIRIS database served to provide two sampling frames for the data collection. An international mail survey using a self-administered questionnaire was employed and an e-mail survey was used to follow-up the respondents.

### **3.2 Primary Data Collection**

Given the nature of the information being sought, as well as cost and time constraints, it was decided to employ a questionnaire survey to obtain the requisite level of detail for this study. Nardi (2006) argues that self-administered questionnaires are best designed for (a) measuring variables with numerous values or response categories that are too much to read to respondents in an interview or on the telephone, (b) investigating attitudes and opinions that are not usually observable, (c) describing characteristics of a large

population, and (d) studying behaviours that may be more stigmatizing or difficult for people to tell someone else face-to-face.

Given the nature of the study, particular characteristics of the mail questionnaire method militated strongly in favour of collecting survey data through this procedure. First, the study had limited financial support which meant that the cost of data collection had to fall within an extremely tight budget constraint. The cheapness of the self-completion questionnaire is especially advantageous for a sample that is geographically widely dispersed. When this is the case, a postal questionnaire will be much cheaper, because of the time and cost of travel for interviewers. Thus it was considered advantageous to use a questionnaire survey to collect data due to its low costs of administration (de Chernatony, 1990). Second, the study had to be completed within a reasonably rigid time frame. Zikmund (2003) notes that questionnaire surveys can be sent out through the post or otherwise distributed in very large quantities at the same time and when respondents are difficult to contact (for instance owing to their work or social commitment), mail questionnaires save the considerable expense of call-backs (de Chernatony, 1990). A thousand questionnaires can be sent out through the post in one batch but even with a team of interviewers, it would take a long time to conduct personal interviews with a sample of that size.

Third, questionnaire surveys permit more flexibility for respondents to consult documents and complete the questionnaire. It is expected that questionnaire surveys can increase response validity as the respondent can take time to organise thoughts before responding (Faria et al., 1990). Additionally, compared with a telephone survey or interviews where instantaneity is important, a respondent would be more likely to allocate more time working through a self administered questionnaire (Jobber, 1991). Answers achieved through a questionnaire survey may be more honest than those from interview where political correctness may be an issue preventing the exposition of real thoughts. Moreover, interviewee errors such as the mis-recording of answers, non-uniformity in asking questions, differential probing and questionnaire falsification are greatly reduced (Jobber and O'Reilly, 1996).



The choice of the mail questionnaire to collect primary data was therefore largely influenced by cost and time constraints of the study and the nature of information being sought. Although Yeung (1995) puts forward a very convincing case for the use of personal interviews in international business research, for this research project this would have necessitated travelling to several European countries, North America and Australia. Mail surveys often remain the only feasible primary data collection method for research in more than one country (Harzing, 1997). Hence, given the constraints of the study, it was decided to administer a mail questionnaire to elicit the required information from as large a sample as possible. The many advantages of the mail questionnaire make it a very attractive data collection method; nevertheless the weaknesses of this research method which have been identified in the literature (see Churchill, 1987; Zikmund, 2003; Nardi, 2006) are recognised.

### **3.3 Development of the Questionnaire**

It is the purpose of this study to attempt to relate two of the four core dimensions of JV study identified by Parkhe (1993), those of the management/control of JVs and JV performance. The focus of the study is the investigation of the relationships between the factors influencing the management and the performance of JVs. The factors influencing the management and the performance of JVs consist of: management control of JVs, autonomy granted to the JV management, trust between JV partners and cultural difference between JV partners.

In order to alleviate many of the common pitfalls associated with questionnaire design, the research instrument was developed by adopting some of the guidelines suggested in the literature (Churchill, 1987; Foddy, 1994; Oppenheim, 1992). In conceptualising and structuring the survey questionnaire, it is suggested that an emphasis be placed on specifying the independent, dependent and extraneous variables (Gill and Johnson, 1997). Additionally, it is important to consider the control of extraneous variables in designing the survey questionnaire so that the requirement of appropriate statistical techniques can be accommodated (Gill and Johnson, 1997).

From a review of the international business literature the main issues relating to the management control of JVs, autonomy granted to the JV management, trust between JV partners and cultural difference between JV partners were identified. Other questionnaires dealing with the similar issues were also consulted (see for example, Glaister and Buckley, 1996; 1997; 1998; 2002; Tatoglu and Glaister, 1996; 1997; 1998; Dong and Glaister, 2007). This provided a sketch of the key questions to be asked. The preliminary questionnaire instruments were discussed with two academicians in the relevant field who had also the experience of questionnaire survey. Based on their comments, the draft questionnaires were subjected to a series of tests and revisions to arrive at the final forms.

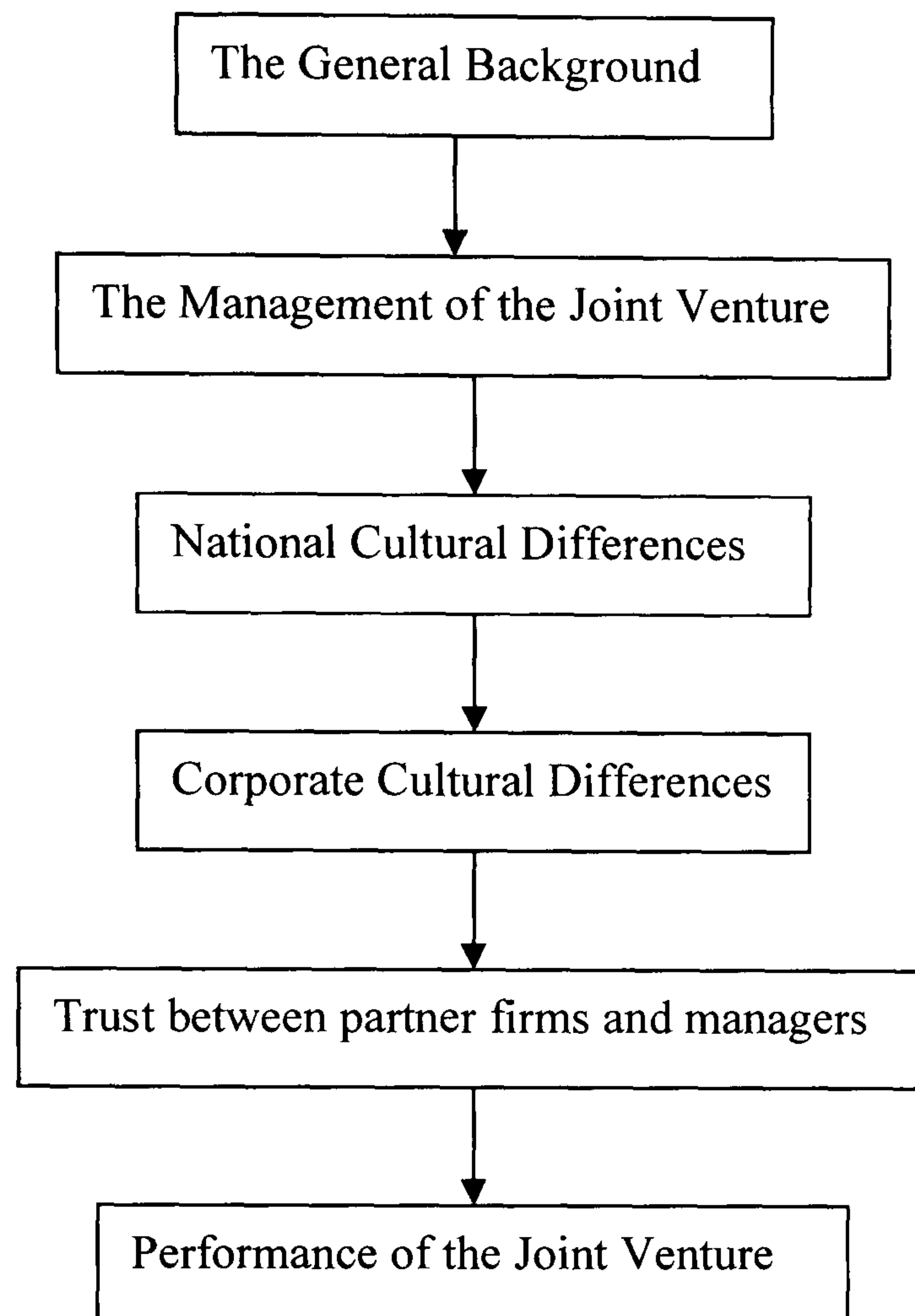
The choice of the language of the questionnaires (English) was motivated by both the budget constraint (different nationalities with different languages were included in the survey) and a number of substantive reasons. The latter included the assumption that CEOs / Presidents in multinational firms would at least have a working knowledge of English and the fact that it would not be possible to determine the native language of the respondent with any certainty (Harzing, 1997).

The questionnaire addressed to the parent companies of the joint venture was grouped under five sections: (1) general background, (2) the management of the joint venture, (3) culture, (4) trust, (5) performance of the joint venture. This questionnaire consisted of 60 questions and composed of multiple parts. Figure 3.1 provides a diagram of the sequence of the sections to be answered by the respondent.

Fink and Kosecoff (1985) assert that closed questions are more efficient and ultimately more reliable. Their efficiency derives from the fact that they can be easily used and analysed by computer. In addition, their reliability is enhanced because of the uniform data they provide since each participant responds in terms of the same options. It was therefore concluded that the most satisfactory way of collecting and analysing data for this research was closed questions. This was reinforced by the nature of the research aim and objectives for this study.



**Figure 3.1 Sections of the Questionnaire**



The questionnaire was carefully designed to be easy to complete. The questions incorporated are broadly of two types: categorical questions of a factual nature and questions designed to measure the attitude and perceptions of the respondents. Categorical questions were mostly placed in the background section and asked for factual data (e.g. respondent's job title, year of foundation, etc.). In line with prior research all the other questions were of an ordinal nature. Ordinal classification of attitude and perception was considered a more realistic task for respondents than the use of interval or ratio measures (Geringer, 1991). While there are a number of different rating measures to choose from, given the limited available time of senior executives to complete the questionnaires, an easily understood Likert-type scale appeared to be feasible. Questionnaires were restricted to 5 point scales since it felt that more numerous response categories would exceed the respondent's ability to discriminate, leading to 'noise' rather than more precise data.

A pilot study in the UK was conducted in order to confirm understanding of the main research issues on the part of potential respondents and to make sure that the items of the questionnaires were clear and unambiguous. Saunders et al. (2002: 308) state that “the purpose of a pilot test is to refine the questionnaire so that respondents will have no problems answering the questions and there will be no issues in recording the data”. It is noted that pilot surveys are standard practice and widely used in social science research. Participants of the pilot study included three UK firms involved in international joint venture operations. A series of semi-structured interviews were conducted with the senior managers from each of the UK firms to evaluate the questionnaires. Of the three firms, two are headquartered in London with partner firms from France and the Netherlands. The other firm is headquartered in Manchester and is involved in JV operations with a French company.

Each of the managers interviewed in the pilot study possessed detailed knowledge of the joint venture that the firm had established. Issues of the management control, autonomy, trust, cultural differences and performance were discussed. Each of the interviews lasted about one hour. Pilot respondents provided information on behalf of the business and from the perspective of their role in its operation. The interviews helped identify particularly sensitive questions and helped decide whether elimination of such questions or perhaps framing them in less objectionable ways still allowed the study objectives to be accomplished. Another useful insight gained was whether one person can fill out the questionnaire or whether it must be attended to by several people.

### **3.4 Respondent Selection**

Since the desired information was highly specific in nature, the study required respondents with specialised knowledge of all facets of JV activity, ranging from management control, autonomy granted, perceptions of national and corporate cultural differences, nature of trust, to performance issues and preferably respondents who have been involved in the joint venture from the start-up. The strategic and policy issues with which the thesis is concerned all require parental board-level approval. These



requirements identify respondents as senior executives who had intimate involvement in JV activities and had access to the requisite data. The senior executives are also in the best position to delegate the completion of the survey to the appropriate person within the parent firm. These persons were identified after a long and thorough assessment of their personal information given by each company's website. Therefore, for each company one or two persons were selected and included in the survey sample. Most of the executives were holding positions within their organisations as chairman, chief executive officers, business development managers, managing directors and commercial managers.

Although it would be ideal to obtain responses from each joint venture partner, this is highly problematic and difficult to achieve. Given cost and time constraints, data were obtained from only one set of parent firms and could not be collected from both parents. The question of whether to obtain data from a single or multiple respondents in each organisation is an important methodological issue. It was recognised, however, that a multiple informant study would be time consuming and expensive. The decision was taken, therefore, to administer the relevant questionnaire to a single respondent in each organisation.

### **3.5 Mail Survey**

The most frequently considered advantage of mail surveys is their ability to collect data from large industrial populations thus allowing quantitative analysis in the testing of inferences and also the potential to generalise the findings (Cragg, 1991). Undoubtedly, the most serious problem of the mail survey is that of non-response, since it has implications for both the quantity and quality of the data obtained. A high response rate provides confidence in any findings derived from a mail survey and thus various techniques have already been suggested in the literature for enhancing response rates (see for example Dillman (1978), de Chernatony (1990), Churchill (1987), Jobber and O'Reilly (1996)). In their comprehensive review of the literature, Diamantopoulous and Schlegelmich (1996) identified the various design and implementation factors studied in the past. They summarised the individual issues addressed in the literature and organised the associated findings under eight main headings, ranging from studies relating to

survey sponsorship to investigations focusing on the impact of non-monetary incentives. Their summary of the suggested guidelines is shown in Table 3.1. The extent to which this study conformed to the suggested procedure is also indicated in Table 3.1.

**Table 3.1 Guidelines for Mail Survey Design and Implementation**

	Motivate potential respondent by	Used in this study
Survey sponsorship	Having study approved by an organisation valued by the respondent.	Yes
Cover letter	Personalising the cover letter by having it individually typed and signed, personally addressed to respondent and stating the researcher's job.	Yes
The questionnaire	Requesting information of personal interest of respondent, preferably easily accessible and not of a confidential / controversial / sensitive nature.	No
Anonymity / Confidentiality	Providing assurances that anonymity / confidentiality will be maintained.	Yes
Contacts	Pre-notifying the respondent by telephone, letter or fax. Conducting the study at "normal" periods.	Yes Yes
Postage	Providing a stamped addressed return envelope. Possibly using first class postage (if funds are not a great problem).	No Yes
Monetary incentives	Provision of financial incentives.	No
Non-monetary incentives	Promising a summary of the study's results without requesting surrender of anonymity.	Yes

*Source: Adapted from Diamantopoulos and Schlegelmilch (1996:527)*



The nature of the full procedures used in the study are summarised below:

*Contacts (warm-up letter):* To ensure good quality responses and to enhance the response rate, a warm-up letter was sent prior to the mailing of the survey questionnaires. This letter identified the researcher, explained the research purpose and assured confidentiality. This brief letter was personalised with the University of Sheffield letterhead, address and signature. The purpose of this letter was to provide a positive and timely notice that the recipient would be receiving a request to help with an important study. Research has shown consistently that a pre-notice will improve response rates to mail surveys (Kanuk and Berenson, 1975; Fox et al., 1988; Dillman et al., 1995; Dillman, 1991) but it is unclear whether the effect stems from the fact it is one additional mailing and the more contacts the higher the response rate or whether it is a unique type of contact. A sample copy of the warm-up letter is produced in Appendix A.

*The Cover Letter:* The cover letter was limited to one page, including certain critical pieces of information. The cover letter started by describing the topic of the inquiry and its academic and managerial importance followed by an explanation of why the opinions of the particular respondent would be valuable. Confidentiality and anonymity were guaranteed. Each covering letter was printed on University of Sheffield headed paper and was highly personalised, including salutation, job title and signature. Letterhead stationery is important, partly because of its integral connection to personalisation efforts. The structure of the letter is based on the suggestion made by Saunders et al. (2002) and includes the following content: the purpose and importance of the study; promise of confidentiality and anonymity; correspondence details of researchers; expression of thanks to the respondent for their support. A sample copy of the cover letter is produced in Appendix B and C.

*Survey Sponsorship:* The likelihood of participating in a mail survey is higher when there exists some kind of approval from an organisation valued by potential respondents. Diamantopoulos and Schlegelmilch (1996) suggest that company executives are in particular more positively disposed towards surveys emanating from academics. They maintain that the nature of university-sponsored research (i.e. non-profit seeking)

contributes to a higher response rate by executives. The likelihood of participation in a mail survey is higher when the study is undertaken with the approval from an organisation valued by potential respondents. The situation is reflected in the cover letter by the signatures and job descriptions of the researchers participating in the study and the logo of the University of Sheffield.

*Questionnaire Design:* The physical nature of the questionnaire for the most part conformed to Diamantopoulos and Schlegelmilch's (1996) suggested procedures as indicated in Table 3.1. While there is controversy about whether the response rate will be higher using short rather than long questionnaires, the literature shows that response rates are not depressed when long questionnaires are used (de Chernatony, 1990). What matters is to make the questionnaire look attractive. The questionnaire used for this study is reproduced in Appendix D.

*Anonymity / Confidentiality:* Assurances were provided that all responses would be treated confidentially and neither the respondent nor his/her organisation would be identified during the analysis and report stages of the study. This statement conveys an ethical commitment not to release results in a way that any individual's responses can be identified as their own. Such assurances were incorporated in the cover letter and served to put the respondent's mind at ease regarding subsequent information disclosure. A promise of anonymity/confidentiality was also reiterated at the beginning of the questionnaires. Research by Singer, Von, Thurn and Miller (1995) has suggested that unnecessary detailed explanations of confidentiality can discourage people from responding.

*Postage:* The mail-outs for the foreign parent questionnaires were processed through the University of Sheffield postal service (franking machine) and were posted first class. The use of first-class mail is consistent with the image of importance that is being sought. First-class mail is delivered at a higher priority and does not usually get held temporarily in each of the distribution centers through which it passes. Although the inclusion of a stamped return envelope is recognised as important in terms of encouraging response,



this practice is less feasible when administering an international mail survey due to cost constraints. The impact on the response rate of not using a stamped envelope in an international study is not clear. Examination of the returned envelopes with the completed questionnaires shows that they were automatically processed through a franking machine. Thus it was usual for the respondent's firm (not the respondent) to pay for the return postage. Overall the non-response effect of not using a stamped envelope appears to be minimal.

*Non-monetary incentive:* Only one type of non-monetary incentive reward, an offer of a summary of the study's findings (with anonymity maintained), was given to respondents to positively influence the likelihood of response.

### **3.6 Survey Sample – Foreign Equity Ventures in Turkey**

The initial aim of the study was to incorporate and compare responses from foreign partner firms and local partner firms in Turkey to analyse the management and the performance of joint ventures. The study initially aimed to examine the managerial perceptions in the parent firms and the Turkish joint venture. The General Directorate of Foreign Investment (GDFI) database was used to delineate the pattern, trend and characteristics of FDI activity in Turkey. All foreign equity ventures operating in Turkey are recorded by the GDFI. General Directorate of Foreign Investment within the Treasury has been authorized to guide and assist foreign investors, receive and process foreign investment application and implement following policies effectively. All foreign investments not exceeding the value of \$150 million are subject to the approval of the GDFI. The GDFI database also provides information about country of origin, location of the investment, the sector of operation, proportion of foreign equity shareholding, total paid-in capital, the formation type of the company and entry date.

The database of GDFI consists of all foreign equity investments in Turkey since 1947 and includes 6,838 foreign equity ventures. Table 3.2 shows the characteristics of the whole sampling frame in terms of foreign equity shareholdings, sector of operations, time of formation, country of origin, location of investment and size. The foreign equity

ventures with Eastern European, Arabic and other Islamic investors were removed from the database as it was assumed that these investors were unlikely to reply and to participate in the survey. A joint venture is defined here as an affiliate where foreign ownership falls between 10 per cent and 90 per cent. Therefore, the foreign equity ventures with ownerships less than 10 per cent and more than 90 per cent were not included. These processes resulted in 1096 foreign ventures and the mail addresses of these were checked to make sure they were up-to-date.

### **3.7 Response Rate: Mail Survey to Foreign Equity Ventures in Turkey**

A warm-up letter was sent to 1096 foreign equity ventures in Turkey at the beginning of February 2007, prior to the mailing of the survey questionnaires. This letter identified the researcher, explained the research purpose and assured confidentiality. It also requested the names of the executives and the addresses of the local and foreign companies in charge of the Turkish equity ventures. This brief letter was personalised with University of Sheffield letterhead, address and signature.

The purpose of this letter was to provide a positive and timely notice that the recipient will be receiving a request to help with an important study or survey. Unfortunately, only 16 warm-up letters were completed with the required information and returned by fax/post. This was not sufficient in order to identify and to mail the questionnaires to the local and foreign parents of the foreign equity ventures in Turkey. The alternative strategy was to identify the foreign partners of these equity ventures in Turkey and mail the questionnaires to these companies.

The list of 1096 equity ventures in Turkey contained the names of the foreign parent companies but it did not have the names of the executives or the addresses of these companies. Most of the foreign partners were individual traders or businessmen and these were removed from the list. The remaining foreign partners were searched for on a search engine, Google, in order to identify the postal addresses of the companies and the names of the executives to contact in these companies. A total of 231 questionnaires were sent by first-class mail to foreign parents located in the USA, Europe, Russia and Far East.



**Table 3.2 Characteristics of the Turkish Sampling Frame**

	No	%
<b>Foreign Equity Shareholding</b>		
Minority JV	1259	18.4
Co-ownership	852	12.5
Majority JV	1450	21.2
WOS	3277	47.9
<b>Broad Sector of Operations</b>		
Agriculture and mining	271	4.0
Manufacturing	1642	24.0
Service	4925	72.0
<b>Time Period of Formation</b>		
Pre 1980	76	1.1
1980-89	1448	21.2
1990-99	3619	52.9
2000 and later	1695	24.8
<b>Country/Region of Origin</b>		
Germany	1216	17.8
UK	516	7.5
Netherlands	508	7.4
France	358	5.2
Italy	289	4.2
Other EU	650	9.5
Switzerland	284	4.2
USA	488	7.1
Arab and other Islamic	1259	18.4
Far Eastern	320	4.7
Eastern Europe and former USSR	642	9.4
Others	308	4.5
<b>Size</b>		
C1-Small	4846	70.8
C2-Medium	1134	16.6
C3-Large	861	12.6
<b>Total</b>	<b>6838</b>	<b>100.0</b>

*Source: General Directorate of Foreign Investment (GDFI) 2006*

Despite these various attempts with this sample of foreign equity ventures in Turkey, it did not prove to be productive. A total of 11 questionnaires were completed and returned, resulting in a response rate of 4.76%. Some of the respondents were contacted by phone (where the company phone numbers were available) in order to follow-up, to remind the respondents to answer to the questionnaire and to state each respondent's importance to the study. Unfortunately, the replies received were mostly that the respondent was out of town, busy or not willing to participate. It was concluded that no more progress could be made with this sample and the responses could not be increased any further. Therefore, the sampling frame for the research study had to be changed and this new sampling frame was to be drawn from the OSIRIS database, which is explained in detail next. This change in the sampling frame would not affect the research objectives and the same research methods could be used.

### **3.8 Survey Sample – OSIRIS Database**

OSIRIS is a comprehensive database of financial information, ratings, earnings estimates, stock data, ownership data and news on global publicly listed companies, banks and insurance firms around the world. With coverage of over 125 countries, OSIRIS contains information on over 37,000 companies. This data is sourced from a variety of Information Providers, each being an expert in its region or discipline. OSIRIS allows searching by any combination of criteria including: geographic location, ownership, stock data, industry code or activity description, number of employees, statement items, ratios, ratings and more. It is possible to search OSIRIS using one or multiple criteria and each criterion offers various options for targeting companies.

A geographic location search option allows searching for companies using the place of their incorporation as the search criteria. The companies can be searched by *Countries and non-sovereign territories*, *World regions*, *Cities* or *US States*. It was decided to target the companies in the UK, USA, Canada and Australia as it was assumed these English speaking countries would find it easier to answer the questionnaire and would be more likely to respond to a UK study than would companies in other countries. Therefore, the companies were searched in OSIRIS database by the *Countries and non-sovereign*



*territories* search criteria. The list of companies matching the search criteria were displayed after each search as identified by country.

Data can be exported from OSIRIS for use in other software programs such as spreadsheets, databases and word processors. The directory, the set of companies, the format and the layout of the export are chosen and exported to a Microsoft Excel spreadsheet. As a result of this operation the companies for each country were downloaded from the OSIRIS database and saved in a separate spreadsheet. The breakdown of companies for each country was as follows as saved in an individual spreadsheet: 4000 UK companies, 10309 USA companies, 2124 Canadian companies and 2010 Australian companies.

The OSIRIS database allows the information downloaded to be customised by the user. For each company the following information was downloaded: the company name, the postal address, phone number, fax number, website address, the names and the titles of the executives. OSIRIS does not provide any information on joint ventures i.e. whether or not a particular company has a joint venture. Therefore, the only possible way to identify whether the companies downloaded from OSIRIS had any joint ventures was through the company history pages of the individual company websites or through a search for the company on the Google search engine. This was a lengthy and a time consuming process. For certain companies, it could not be determined whether or not they had any joint venture operations as no information could be found. These companies were included in the sample in order to avoid the risk of not including them when they actually had established a joint venture.

Companies that may have either joint ventures or international joint ventures were included in the sample. It was assumed that including both types of joint ventures would create a bigger sample size and therefore, a higher response rate. This process resulted in a total of 931 companies with the possibility of having joint ventures or international joint ventures. This does not constitute a definite figure for the sampling frame as it was not possible to identify with certainty whether or not some of the companies had joint

ventures or international joint ventures, as indicated earlier. The total number of companies identified from the OSIRIS database and the breakdown by countries are shown in Table 3.3.

In small organisations, all incoming correspondence may be seen by the owner. In very large organisations, CEOs are unlikely to open their own mail and mail that is handled by someone else may not make it to their desk. This heterogeneity creates the challenge of having to find the “right person” to fill out a survey in large businesses, while in one-person businesses there is no such problem. Business surveys introduce the possibility, and in some cases the likelihood, of having to go through someone to reach the appropriate respondent. These situations may require quite different strategies for obtaining a survey response.

Tomaskovic-Devey, Leiter and Thompson (1994) have formulated and tested a theory of why organisations do not respond to surveys. The theory argues that non-response is less likely to occur when the requested respondent clearly has the authority to respond (e.g. centralised decision-making), the capacity to respond (e.g. knowledge of requested information) and motive to respond (e.g. it is in the respondent’s interest to do so). The respondents were identified after a long and thorough assessment of their personal information given by each company’s website. Therefore, for each company one or two persons were selected and included in the survey sample i.e. for some companies more than one questionnaire was sent to potential respondents. Most of the executives were holding positions within their organisations as chairman, chief executive officers, business development managers, managing directors and commercial managers. A total of 1767 questionnaires were posted to 931 companies and the breakdown by country is shown in Table 3.3.



**Table 3.3 Number of companies identified and number of questionnaires posted**

Country	No. of companies identified	No. of questionnaires posted in total
UK	279	335
USA	444	1069
Canada	114	220
Australia	94	143
Total	931	1767

Each cover letter was personally addressed to the individual respondent by name. Paxson, Dillman and Tarnai (1995) found that knowing the likely respondent's name resulted in significantly higher response rates than when sending questionnaires to the "owner/manager". The ability to add a person's name above the name of the organisation on the address label helps make sure that each contact is made with the same person. That information helps greatly with being able to target all communications and to avoid repeating the same information in each of them, which may occur when a different person receives subsequent mailings. The letters were similarly addressed on the University of Sheffield letterhead stationery and each letter was individually signed.

The research objectives of the study and the questions in the self-administered questionnaire are not dependent on the sampling frame and therefore do not have to be changed or tailored according to a specific country. The same questionnaire was used for this mail survey as was used for the sample of foreign equity ventures in Turkey, which was described earlier in this chapter. The cover letter had to be modified slightly to address the new sampling frame. A sample copy of the cover letter used for the sample of foreign equity ventures in Turkey is produced in Appendix B and a sample of the cover letter used for the OSIRIS sample is produced in Appendix C.

### **3.9 Reasons for Low Response Rates to Mail Surveys**

Research has shown that failure to return a mail questionnaire can be traced to many different aspects of survey implementation. Kulka, Holt, Carter and Dowd (1991), in an analysis of why people did not return, found that some people did not recall receiving it, others recalled receiving it but did not open it and still others opened it but did not start to fill it out. Further, some of those who started to fill it out did not finish and some who finished did not mail it back. Reasons offered for not completing and returning a questionnaire range from “not thinking it’s important” or “not interested in the topic” to “concern about confidentiality” or simply “just not getting around to it”.

Most people who answer questionnaires will do so almost immediately after they receive them. A questionnaire that lies unanswered for a week or more is much less likely to be returned. A questionnaire that is well constructed and accompanied by a carefully composed cover letter is often laid aside with the vague intention of looking at it later. As each day passes without the questionnaire being looked at, it becomes a lower priority, until it is completely forgotten, lost or thrown away. The reasons for the original questionnaire not reaching them extend well beyond getting lost in the mail. For some respondents this is the first time they learn that a questionnaire was sent to them. In some cases, another company employee opens the envelope containing the questionnaire and fails to give it to the desired respondent.

Many organisations have policies that address whether they will cooperate with survey requests and an approval process for questionnaires that do get completed. A policy of not responding to questionnaires provides a convenient means of immediately dispatching requests for completion of questionnaires with the simple statement, “It’s against company policy”. In many organisations, the person who opens the mail and answers the telephone often screens requests for survey participation, even without knowing what the request is about. The questionnaire may be thrown away without the person to whom it is addressed even knowing it was received. Organisational recipients of a letter can easily delay having to respond by ignoring it or sending it to someone else in the hope that it will disappear somewhere within the organisation.



Frequently, the address at which the company is registered is not the same as the address of corporate headquarters. The OSIRIS database provides the company registered address but not the address of corporate headquarters, making sampling and coverage issues particularly difficult to handle. Lists become outdated very quickly as some businesses terminate or are sold while other businesses are being created. The researcher has little or no feedback from respondents. This lack of feedback, other than the knowledge that a previous message did not produce the desired response, makes it impossible to vary the appeal to address the major concerns of each respondent. At best, the researcher can only guess at the predominant reasons for non-response and incorporate appeals to overcome them into each follow-up contact.

### **3.10 Follow-Up Contact: E-mail Survey for OSIRIS Database**

In two studies that essentially disregard personnel costs, Mehta and Sivadas (1995) and Jones and Pitt (1999), the authors concluded that Internet-based surveys are less costly than mail surveys. These conclusions stem from the fact that Internet surveys do not incur postage and printing costs whereas postal mail surveys do. Most studies have concluded that Internet-based surveys are conducted more quickly than surveys sent by postal mail. This conclusion is usually based on the fact that e-mail and other forms of online communication can be instantaneously transmitted whereas postal mail must be physically delivered, which of course takes more time. Gill and Johnson (2002) suggest that relative to postal surveys, e-mail surveys entail major cost savings, are much quicker to conduct, non-responses are easier to identify and chase up, and responses are easier to analyse using SPSS because of their electronic form. The possibility of accessing larger research samples and accessing previously difficult to contact research populations presents important opportunities for the management researcher.

Obtaining questionnaire responses from some members of a sample by one method and other members by a second or even third method is the most common type of mixed-mode survey. Sometimes the follow-up is used to reach people who cannot be found through the initial procedure. A large number of failed attempts to reach someone by

mail may become a repetitive stimulus that is increasingly easy to ignore. Using a different mode offers an opportunity for the researcher to provide new information to the respondent in a new way. Evidence exists that people prefer certain modes (Groves and Kahn, 1979) and if such preferences are significant it stands to reason that people who have not responded to one mode because they dislike it may be receptive to a change in approach. In addition, the mere fact of switching modes tends to emphasise the importance of the study. There can also be no doubt that switching modes is effective in improving response rates beyond those that can be obtained by reliance on a single method. Supporting evidence is available from government and university sponsored surveys on a variety of topics (e.g. Mooney et al., 1993; Petrie et al., 1998).

An attempt was made first to collect as many responses as possible by mail. This effort was followed by an attempt to locate everyone who either had not responded or for whom the mailing address was no longer current. The mixed-mode solution was to collect information from most respondents by e-mail and use paper questionnaires to collect information from the remainder (Schaefer and Dillman, 1998). An e-mail survey was conducted to obtain quick and inexpensive responses. By introducing a second survey mode in this way, it may be possible to avoid the potential measurement differences that must be considered for the other mixed-mode possibilities but also benefit the coverage and response qualities of the survey effort.

The e-mails and the attached questionnaires were sent to the same companies and the executives or directors to which the mail survey was sent. The OSIRIS database does not provide the individual e-mail addresses of the executives and directors. The general format of the e-mail addresses for each company was found by searching on the company websites for contact details or on the Google search engine. The e-mail addresses for each executive or director were then formed by following the general format of the e-mail addresses for each company and by inserting the name of the executive or director. More than one executive or director was e-mailed for each company as there is no cost of sending an e-mail unlike mail surveys. The e-mail survey was a follow-up for the mail survey posted to the sampling frame identified from the OSIRIS database consisting of



UK, USA, Canadian and Australian companies. The e-mails were sent to the same executives holding positions within their organisations as chairman, chief executive officers, business development managers, managing directors and commercial managers identified for the mail survey. Therefore, the e-mail follow-up was sent to a total of 931 companies with 1767 respondents receiving a reminder to participate in the survey.

Observations of how people handle e-mail suggests that many people try to handle it in batches and quickly process each message only once. Messages that appear to be of minimal interest are often deleted after the recipient peruses only the first line or two of the message. In this context, introductory information and the first item on the questionnaire have much influence on response. The first lines of the e-mail simply state that a questionnaire was sent to the respondent previously and why. However, for some respondents this is the first time they learn that a questionnaire was sent to them. The e-mail has a tone of insistence that the previous contacts lack. Its strongest aspect is the first paragraph, in which recipients are told that their completed questionnaire has not yet been received.

Most of the e-mail was devoted to a restatement of each respondent's importance to the study in terms quite different from those used in previous mailings. The social usefulness of the study was also re-emphasised, implying that the usefulness of the study is dependent on the return of the questionnaire. The recipient was also reminded which member of the organisation was to complete the questionnaire. The e-mail was completed by mention of the attached replacement questionnaire and the usual note of appreciation. It is essential to send a replacement questionnaire with the follow-up letter. The time that had elapsed since the first questionnaire mailing made it probable that the original questionnaire, if it had not been lost or thrown away, would be difficult to find.

### **3.11 Response Rate – Turkish sample and OSIRIS sample**

A sample of foreign equity ventures for the study was drawn from the GDFI database on the basis of the following selection criteria: (i) having foreign parents from Europe, USA, Russia and the Far East: it was decided to concentrate on these foreign parents because of

the ease of administering questionnaires and the likelihood of participating in the survey; (ii) the proportion of foreign equity shareholding being between 10 per cent and 90 per cent. Omitting those foreign equity ventures (FEVs) that did not meet the above requirements resulted in a sample frame of 1096 FEVs.

Of the 1096 companies initially contacted by a warm-up letter in February 2007, 15 stated they had no joint ventures and 167 letters were returned as addressed unknown. Unfortunately, only 16 warm-up letters were completed with the required information and returned by fax/post. This was not sufficient in order to identify and to mail the questionnaires to the local and foreign parents of the foreign equity ventures in Turkey. The alternative strategy was to identify the foreign partners of these equity ventures in Turkey and mail the questionnaires to these companies. For the list of 1096 equity ventures in Turkey, the postal addresses of the foreign parent companies and the names of the executives to contact in these companies were identified. A total of 231 questionnaires were sent by first-class mail to foreign parents located in USA, Europe, Russia and Far East in March 2007. Despite these various attempts with this sampling frame of foreign equity ventures in Turkey, it did not prove to be productive. A total of 11 questionnaires were completed and returned, resulting in a response rate of 4.76%.

It was concluded that no more progress could be made with this sampling frame and the responses could not be increased any further. Therefore, the sampling frame for the research study had to be changed and this new sampling frame was drawn from the OSIRIS database. It was decided to target the companies in the UK, USA, Canada and Australia as it was assumed these English speaking countries would find it easier to answer the questionnaire and would be more likely to respond to a UK study than would companies in other countries. This process resulted in a total of 931 companies with the possibility of having domestic joint ventures or international joint ventures. This does not constitute a definite figure for the population size as it was not possible to identify with certainty whether or not some of the companies had domestic joint ventures or international joint ventures. For each company one or two persons were selected and included in the survey sample i.e. for some companies more than one questionnaire was



sent to potential respondents. During June 2007, a total of 1767 questionnaires were posted to 931 companies. Of the 1767 questionnaires mailed, 30 questionnaires were completed and returned, 23 refused to participate in the study stating the confidential nature of information and 30 were returned as address unknown.

An attempt was made first to collect as many responses as possible by mail. This effort was followed by an attempt to locate everyone who either had not responded or for whom the mailing address was no longer current. An e-mail survey was conducted to obtain quick and inexpensive responses. The e-mails and the attached questionnaires were sent to the same companies and the executives or directors which the mail survey was sent. The e-mail survey was a follow-up for the mail survey posted to the sampling frame identified from the OSIRIS database consisting of UK, USA, Canadian and Australian companies. Therefore, the e-mail follow-up was sent to a total of 931 companies with 1767 respondents receiving a reminder to participate in the survey. This follow-up mode proved to be productive resulting in 90 completed questionnaires, 20 refused to participate in the study stating the confidential nature of information and 21 stated that they had no joint ventures.

Each mailing is likely to bring reactions other than a completed questionnaire from a few recipients. Among the more frequent were:

- The executive or director is out of town or has a busy schedule and will not be able to complete the survey before the deadline.
- The executive or director has only worked in the company for a few months and does not have the sufficient knowledge to answer the questionnaire.
- The executive or director requests how his/her contact details were obtained.

As a result, regarding the OSIRIS sample, consisting of UK, USA, Canadian and Australian companies, 30 questionnaires were received by the mail survey and 90 questionnaires were received by the follow-up e-mail survey. In total, 120 completed questionnaires were obtained from the OSIRIS sample, 22 of the questionnaires were completed with regards to domestic joint ventures and 98 questionnaires were completed

with regards to international joint ventures. However, the aim of the study is to examine the management and the performance of international joint ventures. Hence, it was decided to exclude the questionnaires that were completed with regards to domestic joint ventures (22 questionnaires) from the analysis and to use these completed questionnaires for future research. Therefore, 98 usable questionnaires were obtained from the OSIRIS sample and 11 usable questionnaires were obtained from the sample of foreign equity ventures in Turkey, resulting in a total of 109 usable questionnaires.

### **3.12 Content Validity and Instrument Reliability**

There are many different ways of assessing the reliability and validity of a survey instrument. In this research the validity of the instrument (i.e. the extent to which it measures what it intends to measure) was assessed by investigating its content validity. Reliability (i.e. the extent to which measurement is precise, repeatable and consistent) was assessed using Cronbach's alpha coefficient.

Churchill (1987) notes that the validity of a measuring instrument can be assessed by seeking evidence of its pragmatic content and construct validity. Content validity refers to the agreement among professionals that a scale logically appears to accurately reflect what it intends to measure (Zikmund, 2003), although its determination is subjective and judgemental (Emory, 1980). The content validity of the survey instrument was established in several steps. First, an extensive literature review was undertaken to develop the questionnaire items. Next, the preliminary questionnaire instrument was discussed with two academicians in the relevant field. Finally, a pilot study with three UK firms was conducted in order to give the final shape to the data collection instrument.

While there are different methods for measuring the reliability of an instrument, for this study scale reliability was established by using Cronbach's alpha coefficient which is one of the most widely used reliability measures (Bryman and Cramer, 1997). Alpha is based on internal consistency of a test, i.e. it is based on the average correlations between items within a test. In order to initially assess the internal consistency of the scales, an item intercorrelation matrix is constructed for each scale. Those items which have a relatively



low correlation with the other items in their scale are deleted, prior to further analysis. Cronbach's alpha is then calculated for each scale (Cronbach, 1951). Although an alpha value of 0.70 is often considered the criterion for internally consistent established scales, Nunnally (1978) suggests the alpha value of 0.50 to 0.60 is acceptable in the early stages of research.

Sample size is also an important consideration in the discussion of internal consistency, as the tests of significance were explicitly developed for large samples (Nunnally, 1978). More confidence is placed in the accuracy of the alpha values which are derived from a large sample. However, a sample size of 30 or more is statistically sufficient for calculating alphas which is achieved by the sample reported in this study. The Cronbach alpha results for the constructs are reported in each of the relevant chapters.

### **3.13 Data Analysis**

Data analysis reported in Chapters 4 to 8 was conducted using the SPSS statistical package for Windows. An important issue in data analysis is the examination of data in terms of a number of criteria. The data were examined with respect to normality, linearity, homogeneity of variance and outliers and missing values. The initial examination also checked for any violation of assumptions of parametric statistical tests by means of graphical and descriptive summary statistical measures such as histogram, scatter-plots, skewness and kurtosis. The statistical methods employed included frequencies, cross-tabulations, the Chi-square test of independence, two-sample t-test, ANOVA, factor analysis and ordinal regression.

### **3.14 Sample Characteristics**

*Respondent company nationality:* Due to the relatively small proportion of European respondent companies in the sample, the European nationalities were grouped into this broad but distinctive geographic location. As shown in Table 3.4, 41 respondent companies (37.6 % of the total) are from UK, 19 (17.4%) from rest of Europe, 32 (29.4%) from North America and 17(15.6%) from Australia.

*Respondent company's equity share in joint venture:* Of the 109 joint ventures, 35 (32.1%) respondent companies held more than 50% of the joint venture's equity, 33 (30.3%) had less than 50% of the joint venture's equity and 41(37.6%) had equal to 50% share of the joint venture equity. Hence the equity distribution in this sample indicates the respondent companies and their partner companies were holding equal share of the joint venture equity.

**Table 3.4 Sample Characteristics**

		n	%
Respondent Company Nationality	UK	41	37.6
	Rest of Europe	19	17.4
	North America (USA and Canada)	32	29.4
	Australia	17	15.6
Respondent Company's Equity Share in Joint Venture	More than 50%	35	32.1
	Less than 50%	33	30.3
	Equal to 50%	41	37.6
Respondent's Job Title	President or Executive Director	59	54.1
	General Manager or Managing Director	20	18.3
	Functional Manager / Director	30	27.5
Partner Company Nationality	UK	9	8.3
	Europe	43	39.4
	North America (U.S.A. and Canada)	13	11.9
	Australia	2	1.8
	Other	42	38.5
Industry of Joint Venture	Manufacturing	50	45.9
	Tertiary	59	54.1
Joint Venture Termination	Yes	24	22.0
	No	85	78.0
Joint Venture Age Group	Young	71	65.1
	Old	38	34.9
Joint Venture Age (years)	Mean = 9.20	Standard Deviation = 8.038	
N = 109			



*Respondent's job title:* Out of the 109 respondents, 79 (72.4%) were from top-level management, holding positions such as president or executive director (54.1%) and general manager (18.3%). The remaining 30 (27.5%) respondents also held important positions in the parent companies including business development manager, commercial manager and other functional heads.

*Partner company nationality:* As shown in Table 3.4, 9 partner companies (8.3 of the total) are from the UK, 43 (39.4%) from rest of Europe, 13 (11.9%) from North America, 2 (1.86%) from Australia and 42 (38.5%) rest of the world. Due to the relatively small proportion of parent companies from several other nationalities in the sample, the various nationalities from the rest of the world were grouped into this broad geographic location.

*Industry sector of joint venture:* 50 of the joint ventures (45.9%) operated in the Manufacturing sector (including food/drink manufacturing, metals and minerals, energy, construction, chemicals, pharmaceuticals, computers, telecommunications, other electrical, automobiles and other manufacturing) and 59 joint ventures (54.1%) operated in the Tertiary sector (including transport, distribution, financial services and other services).

*Joint venture termination:* 24 of the joint ventures (22.0%) were terminated since formation and 85 of the joint ventures (78.0%) continued to operate.

*Joint venture age and distribution:* The mean of the joint venture age, calculated as the difference between the time of data collection or joint venture termination and the year of the joint venture formation, was 9.20 years with a standard deviation of 8.038 years. The year of joint venture formation ranged from 1962 to 2006, in which 38 joint ventures (34.9%) were formed during 1962-1997 and 71 joint ventures were formed during 1998-2006. Choosing the end of 1997, the age of 9, as a dividing point is justified because the mean age for the sample of the IJVs was 9.20. The joint ventures that had been established for 9 years or less were classified as "young", whereas, the joint ventures that had been established for more than 9 years were classified as "old".

### **3.15 Summary**

This chapter discusses the methods by which the primary data for the study were collected. The issue of which survey method to employ to collect primary data involved a consideration of the advantages and disadvantages of personal interviewing, telephone interviewing and mail questionnaire. Given the nature of the information being sought (both factual and opinion based covering several key areas of JV activity) and in order to elicit the required information from as large a sample as possible within the cost and time constraints of the study, it was decided to administer a mail questionnaire as the most appropriate method. The final form of the questionnaire was derived from a process that included questions reported in the extant literature and information obtained from semi-structured personal interviews with managers who were knowledgeable about their companies' joint venture operations. In administering the mail survey, the study attempted to follow several of the guidelines suggested by Diamantopoulos and Schlegelmilch (1996) in order to enhance the rate of response.

A sample of foreign equity ventures in Turkey was drawn from the GDFI database. Of the 1096 companies initially contacted by a warm-up letter, only 16 warm-up letters were completed with the required information and returned by fax/post. For the list of 1096 equity ventures in Turkey, the postal addresses of the foreign parent companies and the names of the executives to contact in these companies were identified. A total of 231 questionnaires were sent by mail to foreign parents located in the USA, Europe, Russia and the Far East. Despite these various attempts with this sample of foreign equity ventures in Turkey, a total of 11 questionnaires were completed and returned, resulting in a response rate of 4.76%.

The sampling frame for the research study had to be changed and this new sampling frame was drawn from the OSIRIS database. It was decided to target companies in the UK, USA, Canada and Australia as it was assumed these English speaking countries would find it easier to answer the questionnaire and would be more likely to respond. A total of 931 companies were identified but this does not constitute a definite figure for the population size as it was not possible to identify with certainty whether or not some of



the companies had domestic joint ventures or international joint ventures. For some companies more than one potential respondent was identified and a total of 1767 questionnaires were posted to 931 companies. An e-mail survey was conducted as a follow-up for the mail survey and sent to the same potential respondents identified from the OSIRIS database. The e-mails and the attached questionnaires were sent to the same companies and the executives or directors which the mail survey was sent.

As a result, 30 questionnaires were received from the mail survey and 90 questionnaires were received from the follow-up e-mail survey. The aim of the study is to examine the management and the performance of international joint ventures. Hence, it was decided to exclude the questionnaires that were completed with regards to domestic joint ventures (22 questionnaires) from the analysis and to use these completed questionnaires for future research. Therefore, 98 usable questionnaires were obtained from the OSIRIS sampling frame and 11 usable questionnaires were obtained from the sampling frame of foreign equity ventures in Turkey, resulting in a total of 109 usable questionnaires.

The analysis of the primary data is presented in Chapters 4 to 8. The background literature, definition and operationalisation of variables and research hypotheses of the study are detailed in each of the respective chapters that follow.

## CHAPTER 4: THE NATURE OF MANAGEMENT CONTROL IN IJVS

### 4.1 Introduction

A remarkable phenomenon in international business over the last two decades has been the dramatic growth in the number and importance of international joint ventures (IJVs). More Western firms are now opting for IJVs as a method for continued growth and survival in light of maturing local markets and increased international competition (Morris and Hergert, 1987; Gomes-Casseres, 1989; Glaister and Buckley, 1994). However, despite their increasing number and the strategic advantages they provide, IJVs emerge as a problematic organizational form in terms of performance (Beamish and Delios, 1997; Robson et al., 2002; Brouthers and Bamossy, 2006). It is therefore not surprising that performance of JVs has been a prominent theme of research over the past two decades (see Killing, 1983; Beamish, 1988; Geringer and Hebert, 1989, 1991; Geringer, 1990; Makino, 1995; Beamish and Delios, 1997; Glaister and Buckley, 1998; Child and Yan, 2003; Lopez-Navarro and Camison-Zornoza, 2003; Mohr, 2006; Lin and Wang, 2007; Ng et al., 2007; Nielsen, 2007; Ozorhon et al., 2008).

Parkhe (1993) has identified four major dimensions of JV study in the prior literature: motives for JV formation, partner selection characteristics, control/conflict, and JV stability/performance, and in reviewing these lines of study he concludes that researchers have non-cumulatively focused on different dimensions. It is the purpose of this study to attempt to relate two of the four core dimensions of JV study identified by Parkhe (1993), those of the management/control of JVs and JV performance. The focus of this chapter is the investigation of the relationships between the factors influencing the management and the performance of IJVs.

A critical determinant of IJV performance appears to be the control exercised by parents over a venture's activities (Rafii 1978; Killing 1983; Schaan 1983). Although each partner must, by definition, relinquish some control over an IJV's activities, such a move is often accompanied by great consternation. Insufficient or ineffective control over an IJV can limit the parent firm's ability to coordinate its activities, to utilize efficiently its



resources and to implement effectively its strategy (Stopford and Wells 1972; Anderson and Gatignon 1986). Control is a complex and multidimensional concept (Geringer and Hebert, 1989; Gray and Yan, 1992). This feature may help explain why researchers have used different approaches to study control in IJVs. These differences are particularly evident in the conceptualization and operationalization of control.

The perspective of this chapter is an empirical investigation of the nature of management control exercised by the parent firms over the joint ventures. The focus of the chapter is to provide new evidence on the relationships between the dimensions of management control and the performance of a sample of JVs. The main goals of the chapter are to identify the dimensions of management control for a sample of IJVs with parent companies from Europe, North America and Australia and to formulate and test hypotheses on the relationship between dimensions of control and the performance of IJVs.

The rest of this chapter is set out in the following way. The next section reviews the literature relating to prior empirical research on management control of IJVs and the third section sets out the hypotheses of the study. The measures of variables are described in the fourth section. The fifth section presents the results and discussion. A summary is provided in the last section.

## **4.2 Literature Review**

Control refers to the process by which one entity influences, to varying degrees, the behaviour and output of another entity (Ouchi, 1977) through the use of power, authority (Etzioni, 1965) and a wide range of bureaucratic, cultural and informal mechanisms (Baliga and Jaeger, 1984). Typically, as organizations expand in size, there are concurrent increases in the complexity and differentiation of their structures (Lawrence and Lorsch, 1967), as well as in the risks of conflicts, opportunistic behaviour and competing goals between units. As a result, top management are confronted by the increasingly crucial need to monitor, coordinate and integrate the activities of the organization's business units, including IJVs (Child 1977; Mintzberg 1979). The main

purpose of control in JVs is to ensure that the benefits the parents seek are actually obtained without undue costs. However, the distinguishing characteristic of the JV as a co-operative organisation means that the ability of a parent to exercise control is a function both of the influence it has over the JV managers and its influence in relation to other parent companies (Child et al., 1997: 186).

In their detailed consideration of the prior literature relating to JV control, Geringer and Hebert (1989) identified three dimensions of management control: the *mechanisms* or means the parents use to exercise control, the *extent* or degree of control achieved by parents over a JV, and the *focus* of control or the areas of the JV's operation in which control is exercised. It is extremely difficult to compare the results of prior studies on management control of JVs because they have tended to focus on different dimensions of control (Yan and Gray, 1994: 1481). In the prior literature, parent control of the JV has been suggested as a critical factor that determines performance. Despite the presumed relationship between management control and performance, empirical research on this relationship has produced conflicting results (Geringer and Hebert, 1989). Geringer and Hebert (1989: 246) concluded that "the empirical evidence regarding the control-performance relationship in IJVs is limited. The importance and direction of this relationship have yet to be established, tested and clarified".

Selekler-Goksen and Uysal-Tezolmez (2007) evaluated the relative significance of different control mechanisms in creating control and analyzing the impact of control on performance. Investigation of the impact of different control mechanisms on strategic and operational control revealed that capital and non-capital resource contributions, and particularly the latter, emerge as significant sources of control. While equity ownership was positively associated with strategic control, board representation did not have a significant relationship with either control type. Rather than 'forcing' their partners through the legal rights that emerge from ownership or board representation, local parents seemed to rely more on their expertise and local connections to 'convince and lead' them. As far as the relationship between control and performance was observed, while strategic and operational control may have affected various financial returns to the local parents,



they were not creating a difference in terms of goal actualization. Local parents were satisfied with the extent to which they have been able to actualize their objectives and this seemed to be the case even when they did not exercise high degrees of control.

To deal with the complexity of management control of joint ventures, Kamminga and Van der Meer Kooistra (2006) developed a new theoretical model which pays specific attention to the characteristics of the parents' contributions and the three dimensions of management control of joint ventures. A conclusion from the findings of the case studies was that the characteristics of the parents' contributions have an important impact on joint venture control. The cases gave support to the basic argument of the theoretical model that, due to the low level of information asymmetry, a parent can exercise tight control over the joint venture activities which relate to its own contributions. A more refined understanding of the exercised control requires more in-depth knowledge about the whole range of the parents' activities and expertise as well. When considering the theoretical model developed, the different joint venture types have different suitable control characteristics. According to Kamminga and Van der Meer Kooistra (2006), if there is a good match between joint venture type and control characteristics, all types may have a satisfactory performance.

### **4.3 Hypotheses Development**

Depending on the role played by each partner in the decision-making of the joint venture, Killing (1983,1988) distinguished the following types of joint ventures; “the independent venture in which the venture general manager is given a great deal of autonomy to manage as he sees fit, the dominant parent venture in which one parent plays a dominant managerial role, the split control venture in which each parent plays a separate and distinct role, and the shared management venture in which both parents play an active managerial role so all significant decisions are shared” (Killing, 1988: 62).

Choi and Beamish (2004) consider control as a “conduit through which parents' firm-specific advantages are transferred to the venture” (p. 202). From this control perspective, they argue that a split control venture would perform better than the other

types. As each parent has the best capabilities of managing the application of its own contributions to the joint venture, each parent should be involved in those joint venture activities which are related to its own contributions. At the same time, by choosing a split control venture instead of a shared management venture, advantages with respect to division of labour can be gained.

Geringer and Hebert (1989) argue that a significant contribution of the locus of decision-making perspective to the JV literature was to conceptualize control as a continuous variable, rather than merely an absolute, dichotomous variable representing parents' exercise of either total control or no control over the JV. A particular criticism of this perspective is its implicit suggestion that parent firms seek to control the overall JV, rather than targeting specific activities or processes perceived as crucial for achievement of the JV's or the parents' strategic objectives. Schaan (1983) demonstrated that firms tended to seek control over specific 'strategically important activities' rather than over the whole JV. Schaan's (1983) finding that control also had a focus dimension, i.e. that parents may choose to exercise control over a relatively wider or narrower scope of the JV's activities was supported by Geringer's (1988) study of 90 developed country JVs. Further, this suggests that the exercise of effective control should emphasize selective control over those dimensions a parent perceives as critical, rather than attempting to control the entire range of the JV's activities. The first hypothesis relates to the distinction between the extent and focus of control revealed in the prior literature, with certain studies emphasising that JV parents will seek to control particular aspects of the venture rather than striving for overall control.

*Hypothesis 1: Parent firms will seek to focus their control over particular activities of the JV rather than attempting to achieve overall control of the venture.*

From a transaction cost perspective, IJVs replicate the characteristics of hierarchies more closely than other alliances because of the equity shares held by the alliance members (Osland et al., 2001; Casciaro, 2003). While equity is seen as a primary mechanism of control in transaction cost theory literature (Makino and Beamish, 1998), it is equated to



the extent of control a parent has by some bargaining power theorists (Blodgett, 1991). According to Blodgett (1991), equity is the result of the negotiations between the parents and thus a sign of their relative power. Although some recent studies on alliances do not see control as an automatic consequence of equity (e.g. Mjoen and Tallman, 1997), its significance should be recognized in developing countries as developed country firms also use equity as a source of control in their IJVs based in developing countries (Beamish, 1985).

There is a great deal of support in the literature that equity ownership leads to strategic control (e.g. Lee et al., 1998; Wang et al., 1998; Yan and Child, 2004). However, there is disagreement regarding its impact on operational control (Child et al., 1997; Child and Faulkner, 1998; Yan and Gray, 2001). According to Child and Faulkner (1998), ownership cannot result in operational control, as implementation of the strategic policies requires contribution from the other parent. Child and Faulkner (1998) look at the issue mainly from the foreign parent's point of view and underline the dependence of the foreign parent on the local parent, who is more proximate to the IJV, for decision implementation. Their approach may be valid for foreign parents since other mechanisms of control, such as appointment of key managers, can be a more influential means of exercising control for them. However, given the local parent's proximity to the IJV, equity ownership can facilitate local parent's ability to exert operational control by increasing its bargaining power over the foreign parent. Thus, equity is expected to be positively related to the extents of both strategic and operational control that the local parent enjoys.

Results of JV studies of equity ownership on controls have been inconclusive. Some authors have found evidence that the degree of ownership increases control (Youseff, 1975), while others have reported inconsistent results (Dang, 1977). Groot and Merchant (2000: 606) speculated that "unequal ownership may have significant effects on decision-making (controls)". Mjoen and Tallman (1997) found no linkage between equity and strategic controls or between equity and operational controls (e.g. the allocation of decision-making responsibility and the use of manager performance incentives). This

finding is consistent with earlier work that reported the use of specific control mechanisms to be of more relevance than overall equity control to JV partners (Geringer, 1986; Schaan, 1983). Chalos and O'Connor (2004) tested the effects of partner equity ownership, knowledge dependence and asset specific investments on JV controls. Controls included expatriate staffing, socialization practices, delegated decision responsibilities, parent company communications and incentives. Based on field visits and survey data, Chalos and O'Connor (2004) found that partner equity ownership influenced expatriate staffing but none of the other control mechanisms.

Traditionally, the main mechanism of JV control has been majority ownership or voting control (itself largely determined by majority equity shareholdings). Behrman (1970), and Friedman and Beguin (1971) suggested, however, that control is not a strict and automatic consequence of ownership, but rather that a variety of mechanisms were available to firms for exercising effective control such as the right to veto the decisions of the JV managers, representation in management bodies and special agreements relating to either technology (e.g. licensing) or management (e.g. management services). Participation in the management of a JV's operations may also be obtained by a parent firm through its technical superiority and managerial skills. Managerial control can also be exercised in the nomination of one of the parent firm's managers as the JV general manager or other key positions in the JV, as well as the employment of different ownership structure arrangements (Rafii, 1978; Gullander, 1976; Schaan, 1988; Yan and Gray, 1994).

Otterbeck (1981) has also pointed out that while administrative systems are introduced for co-ordination, performance evaluation and decision-making of certain kinds, the desire for control should lead parents to try to impose their own administrative procedures and policies upon the JV. The literature emphasizes the way in which minority shareholders in JVs are able to leverage control of the venture through the establishment of alternative mechanisms of control. Where the parent is a minority shareholder it might be expected that some attempt would be made to lever control of the



venture by organizing more of the control mechanisms than the non-minority shareholders. This suggests the second hypotheses:

*Hypothesis 2: If a parent is a minority shareholder, then more of the other mechanisms of joint venture control will be derived from this parent.*

Boards of directors can fulfill certain duties that can be categorized under the headings of control, service and resource acquisition. The control role entails directors' monitoring of managers as representatives of the shareholders (Johnson et al., 1996). In IJVs, boards provide a context for controlling not only the managers some of whom may be appointed by another parent but also the other parent. The service role involves provision of advice and counsel to management on administrative and other managerial issues (Johnson et al., 1996; Young et al., 2001). In the fulfillment of this role, board members may take an active role in shaping the firm's strategic goals and plans and thereby acquire control over the firm's strategic actions. Thus, board representation of a parent can be seen as another mechanism of strategic control (Yan and Gray, 1994; Child and Yan, 1999).

Although the voting control on board is related to the ownership structure, there is not necessarily a one-to-one correspondence between ownership and board structures. Additionally, boards may confer control rights to the parents irrespective of their ownership shares. A partner with a minority representation on the board also has the chance to voice its opinions about the strategic issues of the IJV. Because relying on voting control on a continuous basis may lead to the breakdown of the IJV eventually, a larger or even a majority partner needs to pay attention to these opinions (Killing, 1983; Child and Faulkner, 1998).

*Hypothesis 3: If the parent company has contributed fewer members to the joint venture management team (i.e. the source of the management team is mainly derived from the partner company), more of the other mechanisms of control will be derived from this parent.*

Past literature on IJVs (e.g. Killing, 1983; Geringer and Hebert, 1989; Mjoen and Tallman, 1997; Yan and Child, 2004) recognizes the control exercised by the parents over the IJV as a significant determinant of performance. Insufficient control over an IJV may not only limit a parent's ability to actualize its objectives and to protect the strategic competencies it shares with the IJV but also decrease the IJV's ability to effectively utilize the resources provided by this parent (Mjoen and Tallman, 1997; Child and Faulkner, 1998). Thus, establishment of a sound control structure is significant for both fulfilling the parents' performance expectations and the satisfactory performance of the IJV as an independent entity.

The subjective assessment of JV performance by a parent firm is likely to be significantly influenced by the degree to which the parent exercises management control over the JV. Yan and Gray (1994) in a case analysis of US–China JVs found that the pattern of management control was directly related to JV performance. Data showed that when the partners' control was even, each partner's performance, as assessed from its own perspective, was equal. However, when control was unevenly shared by partners, the prediction of performance was less straightforward. While in some instances finding that “the partner who exercises a higher level of management control achieves a higher level of performance from its own point of view” (Yan and Gray, 1994: 1499), and “the balance or unbalance in partners' management control is associated with a similar pattern of performance assessed in terms of the achievement of both partners' strategic objectives” (p. 1500), this was not consistent across all cases.

Building on these arguments, a distinction can be made between “high control parents” and “low control parents”, the former being JV parents that exercise the greater degree of authority over the dimensions of management control. A high control parent will have a greater responsibility for the performance outcomes of the JV than is the case for a low control parent. The high control parent is, therefore, more likely to associate its degree of control with JV performance and will, in consequence, be inclined to adopt a more favourable perspective on the performance outcomes of the JV. With the low control parent, and a reduced responsibility for JV performance, there will be a weaker perceived



association between its management of the JV and JV performance, and in consequence there will be less of a tendency to view JV performance favourably.

The more a parent firm has responsibility for the dimensions of JV management control, *ceteris paribus*, the greater will be the level of satisfaction with JV performance expressed by that parent. This general argument underpins each of the particular dimensions of JV management control identified in the literature. Thus, where a parent dominates the main mechanisms of JV control it would be expected that this parent would be more likely to view favourably the performance of the JV. Conversely, where a parent company does not dominate the main mechanisms of JV control, this parent would be less likely to view the performance of the JV in favourable terms. At a more disaggregated level, where the extent of management control is measured in terms of the decision-making responsibility of the parent (Killing, 1983), the subjective measure of satisfaction would be expected to be higher where the parent had decision-making responsibility. It follows that a similar argument applies to the focus of management control. Where the focus of management control is measured in terms of the most active partner in the set of management functions of the JV, the subjective measure of satisfaction would be expected to be higher in those JVs where the partner was the most active. In other words, those JVs where the partners have focused on particular aspects of management control will be given higher subjective values of performance. This reasoning leads to the fourth hypothesis:

*Hypothesis 4: Parents who dominate or have responsibility for management control will have a higher perceived level of satisfaction of JV performance than those parents who do not dominate or have responsibility for management control.*

#### **4.4 Measurement of the Variables**

The measurement of the management control and the performance variables is summarised in Table 4.1. The prior literature makes it clear that a large number of variables may be employed to control a joint venture. In order to achieve some parsimony in terms of the number of variables under study, a representative set of control variables was identified from the literature as follows.

##### *Mechanisms of control*

The mechanisms of control were considered in terms of: (i) the source of the management of the JV; (ii) the general manager appointment of the JV; (iii) the equity shareholding of the respondent company (i.e. at the time of data collection. If the JV has been terminated, the equity shareholding of the respondent company is the equity shareholding before termination); (iv) the power of veto.

##### *Extent of control*

The respondents were asked the extent to which the decision-making was taken jointly regarding nine operating decisions: product pricing, product design, production process, quality standards, replacing a functional manager, budget sales targets, budget cost targets, budget capital and expenditures (this draws on Killing's (1983) measure).

##### *Focus of control*

The focus of control was measured across a set of management functions—finance, R&D, production, distribution, planning, marketing and HRM—according to whether the respondent company, the partner company or both were the most active.

##### *Perception of Performance*

One *subjective measure* was obtained: the respondent company's subjective level of overall satisfaction with the JV's overall performance. The respondents were asked the extent to which they were satisfied with the JV performance on a five-point scale (1 = 'very dissatisfied' to 5 = 'very satisfied').



***Table 4.1 Measurement of management control and performance variables***

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**Mechanisms of control:**

Source of JV management team Respondents were asked to indicate whether the source of the JV management team was: (i) mainly from the respondent company; (ii) mainly from the partner company; (iii) drawn equally from both partners (iv) mainly recruited externally.

JV General Manager Appointment Respondents were asked to indicate whether the general manager of the JV was: (i) originally appointed from the respondent company; (ii) originally appointed from the partner company; (iii) originally from the JV.

Equity share The respondent company's relative equity shareholding at the time of data collection was measured as a trichotomous variable according to whether the respondent company had more than 50%, less than 50%, or exactly 50% of the shareholding in the JV.

Power of Veto Respondents were asked to indicate whether the power of veto over the decisions of JV management team rested with: (i) the respondent company; (ii) the partner company; (iii) both partners (iv) neither parent.

**Extent of control:**

Responsibility for product pricing, product design, production process, quality standards, replacing a functional manager, budget sales targets, budget cost targets, budget capital, expenditures. For each area of responsibility, the respondents were asked to assess the extent to which the decision-making responsibility was taken jointly by the partner companies on ordinal scale from 1 = "no extent" to 5 = "great extent".

**Focus of control:**

Most active in finance, R&D, production, distribution, planning, marketing, HRM. For each functional area, the respondents were asked whether the most active company was the respondent company, the partner company or both.

**Perception of Performance:**

Satisfaction Ordinal scale from 1 = "very dissatisfied" to 5 = "very satisfied".

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## 4.5 Results and Discussion

### *Hypothesis 1*

Evidence relating to H1, which maintains the parent firms will seek to focus their control over particular activities of the JV rather than attempting to achieve overall control of the venture, is set out in Table 4.2. For each functional area, the focus of control was measured according to whether the most active company was the respondent company, the partner company or both. Table 4.2 shows for each functional area, the frequencies and the percentages according to whether the most active company was the respondent company or the partner company and both companies. According to H1, the frequencies and the percentages will be higher for certain functional areas than others where the respondent company is the most active. There is a good deal of evidence from the sample that parent firms seek to focus their control on particular aspects of JV activity, with at least a third of respondent firms focusing on a particular area of decision-making. For the respondent firms, the greatest areas of focus are in *R&D*, *finance* and *planning*. This is followed by *IT*, *production* and *marketing*, with the lowest areas of focus in *distribution* and *HRM*. This indicates that parent firms have a hierarchy of focus areas, with the most focus being in some of the key strategic areas of IJV activity, with less focus where the IJV can be expected to have the greatest local understanding of decision-making.

***Table 4.2 Focus of joint decision-making by parent firms***

	Our Company		Partner Company or Equally	
	N	%	N	%
Finance	52	47.7	57	52.3
R&D	53	48.6	54	49.5
Production	45	41.3	60	55.0
Distribution	37	33.9	62	56.9
Planning	46	42.2	63	57.8
Marketing	43	39.4	65	59.6
HRM	42	38.5	67	61.5
IT	46	42.2	62	56.9



### *Hypothesis 2*

Evidence relating to Hypothesis 2, which maintains if a parent is a minority shareholder then more of the other mechanisms of control will be derived from this parent is set out in Table 4.3. Hypothesis 2 was tested by considering differences in mean rank of the mechanisms of control variables by employing the Mann–Whitney Test as appropriate. Table 4.3 shows that for respondent companies with equity share of less than 50%, the mean rank of the source of management is significantly higher ( $p < 0.01$ ) than where the respondent company has equity share of more than 50% of the shareholding in the JV. The mean rank of the general manager appointment is significantly higher ( $p < 0.01$ ) where the respondent company has equity share of less than 50% of the shareholding in the JV. The mean rank of the power of veto over decisions of JV managers is significantly higher ( $p < 0.01$ ) where the respondent company has equity share of less than 50% of the shareholding in JV. These findings indicate that those parent firms with less than 50% of the IJV equity, i.e. those with less control associated with equity share, are more likely to be responsible for the source of the JV management team, to be responsible for the appointment of the JV general manager and to have the power of veto over the decisions of the JV management team. The findings demonstrate that where a parent firm has an equity share of less than 50% of the shareholding in JV then this parent will seek other mechanisms of JV control. This indicates that parent firms are able to gain control of an IJV even with less than 50% of the equity shareholding. The findings provide support for Hypothesis 2.

### *Hypothesis 3*

Evidence relating to Hypothesis 3, which maintains if the parent company has contributed fewer members to the joint venture management team, more of the other mechanisms of control will be derived from this parent is set in Table 4.4. Hypothesis 3 was tested by considering differences in mean rank of the mechanisms of control variables by employing the Mann–Whitney Test as appropriate. Table 4.4 shows that the mean rank of the general manager appointment is significantly higher ( $p < 0.01$ ) where the source of the JV management team is mainly derived from the partner company (i.e. fewer members are contributed by the respondent company). The mean rank of the equity share is significantly higher ( $p < 0.01$ ) where the source of the JV management team is mainly derived from the partner company. The mean rank of the power of veto over decisions of JV managers is significantly higher ( $p < 0.1$ ) where the source of the JV management team is mainly derived from the partner company. These findings indicate that those parent firms with the source of the JV management team mainly derived from the partner company, i.e. fewer members are contributed by these parent firms, are more likely to be responsible for the general manager appointment, will have greater equity shareholding in the JV and have the power of veto over the decisions of JV managers. The findings demonstrate that where a parent firm contributes fewer members to the JV management team then this parent will seek other mechanisms of JV control. This indicates that parent firms are able to gain control of an IJV even if these parent firms contribute fewer members to JV management team. The findings provide support for Hypothesis 3.



#### *Hypothesis 4*

Evidence relating to H4, which maintains that parents who dominate or have responsibility for management control will have a higher perceived level of satisfaction of JV performance than those parents who do not dominate or have responsibility for management control is set out in Table 4.5 for each of the identified dimensions of management control. Table 4.5 shows the mean level of satisfaction for the group of firms that had management control over the various dimensions of control and those that did not. Hypothesis 4 was tested by considering differences in means of the two groups of firms by employing a t-test as appropriate.

For the source of JV management team, the parents will dominate or have responsibility for this mechanism of control if the source of the JV management team is drawn mainly from this parent company. According to Hypothesis 4, the respondent company's satisfaction with JV performance will be higher where the source of the JV management team is drawn mainly from the respondent company. The mean of the respondent company's satisfaction with JV performance where the source of the JV management team drawn mainly from the respondent company was compared with the mean of the respondent company's satisfaction with JV performance where the source of the JV management team drawn mainly from the partner company, equally from both partners or mainly recruited externally. The mean of the respondent company's satisfaction with JV performance is higher where the source of the JV management team is drawn mainly from the respondent company but not significant.

For the general manager appointment of the JV, the parents will dominate or have responsibility for this mechanism of control if the general manager of the JV was originally appointed from this parent company. According to Hypothesis 4, the respondent company's satisfaction with JV performance will be higher where the general manager of the JV originally appointed from the respondent company. The mean of the respondent company's satisfaction with JV performance where the general manager of the JV originally appointed from the respondent company was compared with the mean of the respondent company's satisfaction with JV performance where the general

**Table 4.3 Equity Share and Other Mechanisms of control**

Mechanisms of control							
Equity Share	n	Source of JV Management		JV General Manager Appointment		Power of Veto	
		Mean Rank	Z	Mean Rank	Z	Mean Rank	Z
> 50%	35	28.56		29.11		28.70	
< 50%	33	40.80	-2.747***	40.21	-2.949***	40.65	-3.022***

\*\*\* p < 0.01 \*\* p < 0.05 \* p < 0.1

**Table 4.4 Source of Management and Other Mechanisms of control**

Mechanisms of control							
Source of JV Management	n	JV General Manager Appointment		Equity share		Power of Veto	
		Mean Rank	Z	Mean Rank	Z	Mean Rank	Z
Own Company	36	25.81		23.11		27.15	
Partner Company	22	35.55	-2.448***	39.95	-3.984***	33.34	-1.589*

\*\*\* p < 0.01 \*\* p < 0.05 \* p < 0.1



## **CHAPTER 5: THE AUTONOMY GRANTED TO JOINT VENTURES**

### **5.1 Introduction**

The issue of how much autonomy, if any, to grant an international joint venture (IJV) has been identified as a major issue faced by both researchers and practitioners (Newburry and Zeira, 1999: 263). This entity is subject to the joint control of its parent firms, each of which is economically and legally independent of the other (Shenkar and Zeira, 1987: 547). Lyles and Reger (1993: 399) concluded that “instead of accepting the premise that JVs should be controlled to the same extent as wholly-owned subsidiaries or the assumption that control should be divided among parent firms, more fruitful research may begin with the notion that significant autonomy should rest with the JV management”. Giving an IJV management enough autonomy to genuinely run an independent business, but at the same time making sure that major strategic decisions are taken by equity partners, is a delicate task (Glaister et al., 2003). Research on the nature IJV autonomy is a relatively neglected area in the examination of IJV activity.

The purpose of this chapter is to provide new evidence on the nature of autonomy in a sample of IJVs with parent firms from Europe, North America and Australia. The overall concept of autonomy is examined by discussing differences in the management and control of decision-making as categorized by operational versus strategic decisions. Furthermore, the influence of IJV performance and IJV duration on autonomy is considered. The rest of this chapter is set out in the following way. The next section reviews the literature relating to prior empirical research on IJV autonomy and the third section sets out the hypotheses of the study. The measures of variables are described in the fourth section. The fifth section presents the results and discussion. A summary is provided in the last section.

### **5.2 Literature Review**

Autonomy is the extent to which joint ventures have the freedom to make decisions over certain key areas of their operations. Hill and Hellriegel (1994) defined autonomy in a more formal manner as ‘the degree of decision making latitude allowed to the joint

venture management by the partners'. According to Newburry and Zeira (1999), a key intervening concept in the distinction between formal definitions of autonomy and control is authority. Formal control refers to the authority that IJV parents have over their IJV, which they allocate between themselves. Formal autonomy, by contrast, refers to authority that the IJV receives from the parents. The distinction between control and autonomy also becomes evident when examining how these two concepts have been previously measured (Newburry and Zeira, 1999). Control studies have generally concentrated on obtaining data from parent-level sources. Autonomy studies have usually utilized IJV level sources, concentrating on IJVs' abilities to act independently.

One explanatory model for the degree of autonomy of joint ventures comes from resource dependence theory (Pfeffer and Salancik, 1978). This theory states that the power of one organization to influence decision-making in another organization depends upon the extent to which that other organization is dependent upon the first for resources. The joint venture is dependent upon the parents, usually for finance, perhaps also for other inputs, or for providing access to markets for products. The greater the dependence of the joint venture upon the parents the less we might expect the autonomy of the joint venture to be and the greater the influence of the parents over decision-making (Moxon et al., 1988). The parent companies are also dependent upon the joint venture for certain outputs whether these be production of finished products, intermediate components, research and development, or other factors.

Transaction cost theory gives a different perspective upon the management of joint ventures. Underlying the transactions costs approach is a theory about the managerial cost of making the necessary decisions to maintain control over a joint venture. The parent companies expect to receive a return on their investment from the joint venture but they have the problem of managing the related transactions. According to Butler and Sohod (1995), when the objectives of the joint venture are ambiguous and there is lack of clarity over what the joint venture is doing greater managerial effort is needed on the part of the partners, which may involve greater direct involvement in decision-making and hence less decision-making autonomy for the joint venture. Combining the two



explanatory models, Butler and Sohod (1995) conclude that the condition of minimum joint venture autonomy would therefore tend to appear under high resource-dependence and high transaction ambiguity, while maximum autonomy would appear under low resource-dependence and high transaction specificity.

As noted by Lyles and Reger (1993), there appears to be a general assumption that IJVs should not have complete autonomy in their actions. Harrigan's (1985, p. 334) research revealed that too much autonomy may result in IJV termination when the IJV evolves quicker than expected into a strong organization with the ability to stand alone. At this point, the IJV may have become too strong for its parents to manage effectively, and accordingly the parents may no longer gain the benefits for which the IJV was pursued. By limiting an IJV's autonomy, a parent company can guide the policy and actions of its IJV as well as monitor, coordinate and integrate the IJV's activities with those of the parent (Geringer, 1993).

Zeira and Shenkar's (1990) findings indicate that when the goals of IJV parents differ, this causes a state of confusion within the IJV, especially when one parent's hidden agenda of disarming another parent becomes known to the IJV managerial team. Hence, incompatibility in goals can be managed by autonomy because local management generally knows what works best in local circumstances, and acts to initiate programmes which are in the best interests of the IJV. Prahalad and Doz (1987) stated that usually headquarters managers lack an understanding of the skills and limitations involved in operating in environments dissimilar to that of the parent companies and hence headquarters executives should be aware of this shortcoming. This suggests that the greater the environmental dissimilarities, the higher the recommended venture autonomy. Bleeke and Ernst (1991) concluded that autonomy is necessary to allow IJVs the freedom of action required to successfully accomplish their goals because of confusing directions given by multiple parents and a need to be able to adapt to a changing environment. In support of granting IJV autonomy, Killing (1983) describes a failure cycle where poor IJV performance leads to lower IJV autonomy, subsequently leading to inefficient decisions and even poorer IJV performance.

### 5.3 Hypotheses Development

There is a clear distinction between strategic and operational control in organizations, which applies also to IJVs. Child and Faulkner (1998, p. 190) point out that it is effective for IJV parents to exercise control selectively over those activities and decisions the parent regards as critical. Furthermore, Child, Yan and Lu (1997) point out that the transactions costs of managing some areas of IJV activity may be less for one partner because of its acquired competence and familiarity in so doing than for another partner. These considerations support 'the notion of parent firms' parsimonious and contingent usage of resources for controlling IJVs' (Geringer and Hebert, 1989, p. 240). They imply that IJV owners may seek to concentrate on providing certain resources and on controlling key decision areas and activities. Child and Faulkner (1998, p. 187) argue that a distinction that may inform this selection is that between strategic control and operational control (Yan and Gray, 1994, 1996).

Glaister et al. (2003) examined the concept of autonomy in decision-making in a sample of UK-European equity joint ventures. The findings of Glaister et al.'s (2003) study show that there is a spectrum of autonomy across decision-making areas. IJV managers have a relatively high degree of operational autonomy but relatively low levels of strategic autonomy in decision-making. The findings further show that operational decision-making by IJV managers takes place within the context of a set of constraints established by the partners and decided through the board of the IJV. As long as IJV managers provide the necessary information through the board and they act in the way they are expected, they are allowed a relatively high degree of operational autonomy. Extending this line of argument to the notion of autonomy, it is likely that parents will seek to exercise more control over issues relating to the strategic management of the IJV and grant autonomy to the IJV with respect to operational management. This discussion leads to the first hypothesis:

*Hypothesis 1: IJV managers have a relatively high degree of operational autonomy but relatively low levels of strategic autonomy in decision-making.*



The performance of the IJV is likely to be a moderating variable on IJV autonomy. Killing (1983) noted that JV parents loosen or increase control over their ventures as a response to their performance. Yan and Gray (1994) reported data that suggests that performance also shapes the relative levels of bargaining power and the pattern of the sharing of management control between parents. In general it may be argued that where the parents perceive the performance objectives of the IJV to be at least satisfactory and to be improving beyond some minimum requirement then they are more likely to grant greater decision-making autonomy to the IJV management. In contrast, where IJV performance is unsatisfactory in terms of objectives or generally declining, then the parent firms are more likely to withhold or withdraw autonomy and take a greater role in the decision-making of the IJV. A key finding from Glaister et al.'s (2003) study is that in general greater IJV autonomy is positively associated with perceived performance of the IJV, but that the nature of this autonomy needs to be carefully specified. It appears that partners allow IJV management autonomy as long as performance is acceptable to them, but only in certain areas of decision-making. The following hypothesis therefore concerns the extent to which satisfaction with IJV performance is related to the perceived extent of IJV autonomy.

*Hypothesis 2: If the IJV is performing well then the IJV management will be afforded a high level of autonomy. If the IJV is performing poorly then the autonomy of the IJV management will be curtailed. IJV autonomy will be positively associated with the perceived performance of the IJV.*

Another moderating variable on autonomy is likely to be the duration or age of the IJV. The 'parent-child relationship' (Harrigan, 1986) emphasizes the extent to which the IJV is dependent upon the partner firms. However, over time, the nature of the relationship between the partners and the IJV may change fundamentally. In particular, as IJVs age they may gain more autonomy from the parent firms (Lorange and Roos, 1992). In new and immature IJVs the parent firms are likely to scrutinize carefully the decisions of the IJV management and to control tightly the decision-making process. As the IJV matures and as the parents' confidence in the IJV management grows it is likely that the partners

will grant increased autonomy to the IJV management. Glaister et al. (2003) conclude that their findings are mixed with regard to IJV duration and autonomy. Some aspects of decision-making are likely to be granted to the IJV management as the venture matures while other areas, particularly those associated with propriety technology are not. The third and final hypothesis thus concerns the extent to which the age of the IJV is related to the perceived extent of autonomy of the IJV.

*Hypothesis 3: The degree of autonomy will be expected to increase as the IJV matures.*

## **5.4 Measures**

### *Perception of autonomy*

Respondents were asked to assess the overall level of IJV autonomy on a five-point scale (1 = 'no autonomy' to 5 = 'complete autonomy'). This perceptual measure of autonomy across the IJV system provides information regarding the extent to which the IJV is viewed as autonomous by the parent firm.

### *Decision-making autonomy*

Respondents were asked to assess the extent to which the IJV was autonomous in its decision making across a range of 16 decision areas on a five-point scale (1 = 'no autonomy' to 5 = 'complete autonomy'). The 16 decision areas were: hiring and firing non-technical personnel, hiring and firing technical personnel, pricing, distribution, marketing, day-to-day management, hiring and firing JV senior managers, cost control, manufacturing, patents and trademarks, technology and engineering of products, process technology, R&D, financing of the JV, deciding capital expenditures and JV location.

### *Performance measures*

The subjective and objective performance measures were broadly derived in the manner followed by Geringer and Hebert (1991). One *subjective measure* was obtained: the respondent company's subjective level of overall satisfaction with the JV's overall performance. The respondents were asked the extent to which they were satisfied with the JV performance on a five-point scale (1 = 'very dissatisfied' to 5 = 'very satisfied').



One *objective performance measure* was obtained: *JV duration* was measured by the number of years between the JV's formation and either its termination or the collection of performance data, whichever came first.

## **5.5 Results and Discussion**

### **5.5.1 Perceptions of IJV Autonomy**

Respondents were asked to assess the overall level of IJV autonomy on a five-point scale. This was a broad, preliminary assessment of the perception of autonomy in the IJV, as precursor to a more fine-grained examination of the concept in detail. For the sample of respondent firms, the mean score measuring the level of IJV autonomy (Mean = 3.64; S.D. = 0.845) was above the median measure, indicating the perception of a fair (but certainly not a complete) degree of autonomy of decision-making on the part of IJV managers.

### **5.5.2 Autonomy in Operational Decisions and in Strategic Decisions**

Respondents were asked to assess the extent to which the IJV had autonomy in 16 decision-making areas. Due to potential conceptual and statistical overlap, an attempt was made to identify a parsimonious set of variables to determine the underlying primary dimensions of decision-making autonomy for the sample data. Exploratory factor analysis (EFA) using varimax rotation was used to extract the underlying constructs. One of the variables, hiring and firing JV senior managers, had low factor loadings and therefore was eliminated from further analysis. The remaining 15 variables were factor analysed and produced five underlying factors which make good conceptual sense and explained a total of 77.7 per cent of the observed variance, as shown in Table 5.1.

The five factors may be summarized as: *Design and Technology Management*, *Marketing Management*, *Strategic Management*, *HRM and Operational Management*. Cronbach alphas for the underlying factors range from 0.64 to 0.92 with all values being substantially over 0.70, which suggests a satisfactory level of construct reliability (Nunnally, 1978). Glaister et al. (2003) identified a continuum of decision-making in IJVs that ranged from strategic decisions to operational decisions. An *a priori* ordering of

the five factors shown in Table 5.1, from the most operational to the most strategic in nature, suggests the following: *Operational Management, HRM, Marketing Management, Design and Technology Management* and *Strategic Management*.

*Factor 1 (Design and Technology Management)*

The first factor had high positive loadings on four decision-making criteria: patents and trademarks, technology and engineering of products, process technology and R&D. The first factor was therefore interpreted as a decision-making dimension relating to design and technology management aspects of IJV autonomy.

*Factor 2 (Marketing Management)*

This factor had high positive loadings on three of the decision-making criteria: pricing, distribution and marketing. It was interpreted as a decision-making dimension that is associated with the marketing aspects of autonomy.

*Factor 3 (Strategic Management)*

This factor had high positive loadings on the following three decision-making criteria: financing of the JV, deciding capital expenditures and location of the JV. Therefore, this factor was interpreted to be a decision-making dimension concerned with the strategic aspects of IJV autonomy.

*Factor 4 (HRM)*

The fourth factor had high positive loadings on two decision-making criteria: hiring and firing of non-technical personnel and hiring and firing of technical personnel. This factor was therefore interpreted to be a decision-making dimension relating to HRM aspects of IJV autonomy.

*Factor 5 (Operational Management)*

The fifth factor had high positive loadings on three decision-making criteria: day-to-day management, cost control and manufacturing. This factor was therefore interpreted to be a decision-making dimension relating to operational aspects of IJV autonomy.



**Table 5.1 Factor Analysis of Decision-making Autonomy Granted to Joint Venture**

Factor Loads	Eigenvalue	% Variance explained	Cumulative per cent	Cronbach alpha
<b>Design &amp; Technology Management</b>				
Patents and trademarks	0.734	42.637	42.637	0.920
Technology & engineering of products	0.874			
Process technology	0.873			
R&D	0.888			
<b>Marketing Management</b>				
Pricing	0.731	12.054	54.691	0.901
Distribution	0.804			
Marketing	0.789			
<b>Strategic Management</b>				
Financing of the JV	0.864	9.696	64.837	0.847
Deciding capital expenditures	0.833			
Location of the JV	0.796			
<b>HRM</b>				
Hiring & firing non-technical personnel	0.889	7.393	71.780	0.819
Hiring & firing technical personnel	0.755			
<b>Operational Management</b>				
Day-to-day management	0.734	5.928	77.708	0.636
Cost control	0.704			
Manufacturing	0.646			

Evidence relating to Hypothesis 1, which maintains that IJV managers have relatively high degrees of operational autonomy but relatively low degrees of strategic autonomy, is set out in Tables 5.2. The mean responses for all categories of respondent are shown in Table 5.2. For the full sample the individual elements of the factors that are the most operational in nature, *HRM* and *Operational Management*, have the highest mean scores each averaging above 4. It is clear from Table 5.2 that the greatest level of IJV autonomy is in the day-to-day management of the IJV, with a mean score well above 4, indicating a relatively high level of IJV autonomy. Table 5.2 also shows that four other decision-making areas achieved a mean score above 4, indicating a relatively high level of autonomy in hiring and firing of non-technical personnel and technical personnel, manufacturing and cost control. Each of the elements of the *Marketing Management* and *Design and Technology Management* factors have mean scores above 3 but less than 4, indicating a medium level of autonomy. In contrast the individual elements of the *Strategic Management* factor each have a mean score less than 3, indicating relatively little IJV management autonomy in the decisions to locate the IJV, its financing and deciding capital expenditures.

It is apparent from Table 5.2 that while there is a perception across respondents of a reasonable amount of autonomy, there is a spectrum of local control across decision-making areas. IJV managers have most decision-making freedom in regard to daily management and ongoing operational issues and least autonomy in regard to longer-term financial issues and senior management appointees. This indicates that managers have a relatively high degree of operational autonomy but relatively low levels of strategic autonomy in decision-making. The ranking of the individual elements of the factors by their mean scores clearly shows that autonomy increases along the continuum of decision making autonomy from strategic decisions to operational decisions. The greatest autonomy is granted in *HRM* and *Operational Management* followed by *Marketing Management* and *Design and Technology Management* while lowest autonomy is granted in *Strategic Management*. The factor analysis demonstrates a spectrum of autonomy, indicating a relatively high degree of operational autonomy but relatively low levels of strategic autonomy in decision making, providing strong support for Hypothesis 1.



**Table 5.2 Decision-making Autonomy Granted to the International Joint Venture**

	Rank	Mean	S.D.
<b>Design &amp; Technology Management</b>	<b>4</b>	<b>3.37</b>	<b>1.162</b>
Patents and trademarks	12	3.14	1.393
Technology and engineering of products	9	3.58	1.281
Process technology	10	3.51	1.175
R&D	11	3.30	1.327
<b>Marketing Management</b>	<b>3</b>	<b>3.80</b>	<b>1.030</b>
Pricing	8	3.64	1.151
Distribution	6	3.98	1.131
Marketing	7	3.81	1.096
<b>Strategic Management</b>	<b>5</b>	<b>2.39</b>	<b>1.117</b>
Financing of the JV	15	2.20	1.231
Deciding capital expenditures	13	2.64	1.229
Location of the JV	14	2.31	1.366
<b>HRM</b>	<b>1</b>	<b>4.33</b>	<b>0.911</b>
Hiring and firing non-technical personnel	2	4.42	0.965
Hiring and firing technical personnel	3	4.23	1.015
<b>Operational Management</b>	<b>2</b>	<b>4.23</b>	<b>0.698</b>
Day-to-day management	1	4.57	0.672
Cost control	5	4.04	0.927
Manufacturing	4	4.05	1.114

### 5.5.3 IJV Performance and Autonomy

Hypothesis 2 maintains that the IJV autonomy will be positively associated with the perceived performance of the IJV. Chi-square test was carried out between respondents' perceptions of performance and perceptions of autonomy. The null hypothesis is that satisfaction with JV performance and autonomy granted are independent. Therefore, the alternative hypothesis is that satisfaction with JV performance and autonomy granted are not independent. For the sample of respondents, the chi-square test statistic between the satisfaction with performance and autonomy granted was significant ( $X^2 = 4.867$ ;  $p < 0.05$ ). As a result, the null hypothesis is rejected and the alternative hypothesis is accepted, implying that perceptions of performance and autonomy are not independent. The chi-square test provides reasonable support for the view that there is a relationship

between the respondent company's satisfaction with performance and autonomy granted to the IJV managers and provides reasonable support for Hypothesis 2.

To further examine this hypothesis, correlation between perception of performance and perception of autonomy was calculated. For the sample of respondents, the correlation between the satisfaction with performance and autonomy granted was significant ( $\rho = 0.235$ ;  $p < 0.05$ ). There is a positive significant but moderate level of correlation, providing support for Hypothesis 2 and support for the view that the better the IJV performance the greater the level of autonomy provided by the partners to the IJV management. If the IJV is performing well then the IJV management will be afforded a high level of autonomy; however, if the IJV is performing poorly then the autonomy of the IJV management is curtailed.

More detailed evidence relating to performance and autonomy is shown in Table 5.3, where correlations between the perception of satisfaction of performance and the perception of the extent of autonomy across a number of dimensions of decision-making are reported. Significant positive correlations were expected between performance and the various areas relating to decision-making autonomy. For the sample of respondent firms, significant positive correlations are found for hiring and firing non-technical personnel ( $p < 0.05$ ) and technical personnel ( $p < 0.01$ ). Clearly, for the respondents as a whole as IJV performance improves there is an expectation of the granting of autonomy to the IJV managers in terms of hiring or dismissing the key personnel of the IJV. Other significant positive correlations are found for pricing ( $p < 0.05$ ), distribution ( $p < 0.1$ ) and cost control ( $p < 0.01$ ).

The strongest positive and most significant correlations are in the three most operational areas of activity, i.e. *Operational Management* ( $p < 0.1$ ), *HRM* ( $p < 0.01$ ) and *Marketing Management* ( $p < 0.01$ ), with the strength of correlation and level of significance increasing as the factor of autonomy becomes more operational. In clear contrast, the more strategic the factor is, the weaker the correlation with none of the correlations significant. As anticipated, this implies that the better the perceived level of performance



the greater the level of autonomy granted to IJV managers, however, this only applies to operational autonomy. The implication is that as the operational aspect of decision-making increases the greater the likelihood that autonomy is afforded to IJV managers as performance improves. In contrast as the strategic aspect of decision-making increases there is little likelihood of autonomy even if performance improves.

**Table 5.3 Correlation between satisfaction with performance and autonomy granted (Spearman's rho)**

Extent of JV Autonomy	
<b>Design &amp; Technology Management</b>	<b>0.118</b>
Patents and trademarks	0.081
Technology and engineering of products	0.080
Process technology	0.163
R&D	0.161
<b>Marketing Management</b>	<b>0.222**</b>
Pricing	0.214**
Distribution	0.185*
Marketing	0.154
<b>Strategic Management</b>	<b>0.103</b>
Financing of the JV	0.059
Deciding capital expenditures	0.113
Location of the JV	0.064
<b>HRM</b>	<b>0.266***</b>
Hiring and firing non-technical personnel	0.207**
Hiring and firing technical personnel	0.270***
<b>Operational Management</b>	<b>0.161*</b>
Day-to-day management	-0.008
Cost control	0.257***
Manufacturing	0.026

\*\*\*  $p < 0.01$  \*\*  $p < 0.05$  \*  $p < 0.1$

Contrary to expectations there is a negative correlation reported in Table 5.3. The negative correlation for day-to-day management is not significant but it is close to zero; implying autonomy is largely independent of performance. It may be recalled from Table

5.2 that day-to-day management is ranked first and has the highest mean score for decision-making autonomy. In other words for this highly operational aspect of decision-making, the parents may be willing to grant autonomy to JV management almost irrespective of JV performance.

A key finding from this study is that in general greater IJV autonomy is positively associated with perceived performance of the IJV, but that the nature of this autonomy needs to be carefully specified. It appears that the respondent firms allow IJV management autonomy as long as performance is acceptable to them, but only in certain areas of decision-making. If performance deteriorates, or is below what is expected, then there may be greater parent involvement and intervention in the operational running of the IJV and in the IJV decision-making processes. Overall, evidence from this study supports the view that the level of autonomy granted to IJV managers and IJV performance are correlated, providing support for Hypothesis 2.

#### **5.5.4 IJV Age and Autonomy**

Autonomy is not a static concept so the nature of the autonomy extended to the IJV management is likely to change over the evolution of the IJV. Hypothesis 3 maintains that the degree of autonomy will be expected to increase as the IJV matures. Chi-square test between the age of the joint venture and perceptions of autonomy for the respondents was carried out. The null hypothesis is that the age of the joint venture and autonomy granted are independent. The chi-square statistic between the age of the joint venture and autonomy granted ( $X^2 = 1.380$ ) was not significant. As a result, the null hypothesis is accepted, implying that the age of the joint venture and autonomy granted are independent. The chi-square test does not provide support for Hypothesis 3 and there is no relationship between age and autonomy.

To further examine this hypothesis, correlation between the age of the joint venture and perception of autonomy was calculated. The correlations were weak and not significant ( $\rho = 0.089$ ), providing no evidence of a relationship between the age of the joint venture and autonomy granted to the joint venture. This indicates that for the broad conception of



autonomy there is no underlying relationship of increased autonomy as the IJV matures, providing no support for Hypothesis 3.

More detailed evidence relating to age and autonomy is shown in Table 5.4, where correlations between the age of the joint venture and the perception of the extent of autonomy across a number of dimensions of decision-making are reported. The only significant positive correlation in Table 5.4 is the location of the JV ( $p < 0.1$ ). However, the location of the IJV is unlikely to change as the IJV matures and it cannot be expected that partners will increasingly grant autonomy to IJV management in this area.

**Table 5.4 Correlation between the age of the joint venture and decision-making autonomy (Spearman's rho)**

Extent of JV Autonomy	
<b>Design &amp; Technology Management</b>	<b>0.017</b>
Patents and trademarks	0.041
Technology and engineering of products	0.032
Process technology	0.021
R&D	0.011
<b>Marketing Management</b>	<b>0.128</b>
Pricing	0.137
Distribution	0.105
Marketing	0.073
<b>Strategic Management</b>	<b>0.097</b>
Financing of the JV	0.033
Deciding capital expenditures	0.051
Location of the JV	0.160*
<b>HRM</b>	<b>0.050</b>
Hiring and firing non-technical personnel	0.043
Hiring and firing technical personnel	0.039
<b>Operational Management</b>	<b>0.113</b>
Day-to-day management	0.035
Cost control	0.112
Manufacturing	0.093

\*  $p < 0.1$

Overall, the findings of the study show no significant correlations between IJV duration and autonomy. Hence, these results do not provide support for Hypothesis 3. Broadly, the evidence from this study indicates that autonomy cannot be expected to increase simply as the IJV matures; autonomy is only granted if performance is appropriate.

## **5.6 Summary**

The perceptual measure of autonomy shows that the respondents consider that there is a relatively high degree of autonomy afforded the IJVs in this study. The findings of the study show that there is a spectrum of autonomy across decision-making areas. IJV managers have a relatively high degree of operational autonomy but relatively low levels of strategic autonomy in decision-making. The relationship between IJV performance and autonomy is not clear cut. As performance improves, an extension of autonomy is likely to be granted in some decision-making areas. There was no relationship found between the age of the IJV and autonomy. In broad terms IJV management cannot presume that there will be a simple extension of autonomy of decision-making as the venture matures.

IJV autonomy is a rather fuzzy concept unless the distinction is drawn between strategic autonomy and operational autonomy. Giving an IJV management enough autonomy to genuinely run an independent business, but at the same time making sure that major strategic decisions are taken by equity partners, is a delicate task. The difficulty of this task is compounded by the dynamic evolutionary nature of the partner-management relationship over the life-cycle of the IJV. Further, IJV management autonomy is not guaranteed but is conditional on IJV performance satisfying partner goals.

This chapter detailed the background literature, the measures of variables, the hypotheses, the results and discussion related to the autonomy granted to joint ventures. Chapter 6, which follows next, examines the perceptions of cultural differences and the management of culture.