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Joint Ventures

in the

People's Republic of China

VOLUME ONE

Ph.D. Marketing

Thesis

by

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1999

Acknowledgements

I am very grateful to Professor Michael Baker for allowing me the opportunity and the encouragement to have engaged in this research. I hope that I have achieved some of the precision that I have seen in the work of Dr Michael McDermott, and also some of the characteristic creativity and breadth of vision which I have seen in the work of Dr John Webb, to both of whom I am much obliged. I must especially acknowledge the kind assistance of Mrs Christine Donald, who helped me at a very difficult time.

I am very grateful to Dr Jim Hamill, as I doubt that I would have embarked on this task if it were not for his inspirational teaching, and I have no doubt that I would not have completed it if it were not for his tireless efforts in supervising my progress. I have come to realise as time has passed that Dr Hamill has always been one step ahead of me, and I am thankful for the times when he has so generously 'nudged the tiller' and kept me on course. The yardstick Dr Hamill provided me with at the outset has both motivated me and focused me throughout, just two words which I stuck on the wall in front of my desk, 'So What?'.

I must acknowledge the inconveniences borne, and sacrifices made by my family ; Mary my wife who encouraged me, and my children Laura, Oliver and Kate who gave up so much while I have been totally engrossed in this research. Also I must acknowledge the contribution made by 'Dilwyn' who sat with me for the first two years and took me for regular walks, but sadly never got to see me complete the work.

Executive Summary

Joint Ventures in the People's Republic of China

- China withdrew into a self-imposed isolation from the world economic community between 'The Long March' of 1949 and the 'Open Door' policy of 1979. The self-sufficient and internally subsistent policies of the 'Mao' years halted industrial, economic and social development, such that when China re-entered the world economic community in 1979, it was comparatively underdeveloped and uncompetitive.

- Given the extent of industrial neglect, a strategy of self-redevelopment and modernisation would have been slower than the rate of advance of its first-world competitors, resulting in a continuing development differential between China and the developed world.

- A rapid development strategy was chosen involving foreign companies in the modernisation of China's industries by way of foreign participated joint ventures. The complementarity between the partners was based upon their contributions, whereby foreign partners would most often contribute finance and endow joint ventures with technology, products, and management, mainly in exchange for market access and other location specific advantages.

- This research reviews the foregoing circumstances initially on the basis of an extensive review of the general literature on joint ventures to define the basic premises of the joint venture as an entry mode. The indications are that there are inevitably strategic considerations common to all joint ventures irrespective of location, and there are also many location specific circumstances in China.

- Such location specific circumstances are identified in the extensive review of the subject literature. It is found that the popularity of joint ventures has been based

upon the low-cost incentives and the perceived potential in the Chinese domestic market, rather than on the actual regulatory or environmental circumstances.

- Occasional declines in foreign direct investment inflows and the rate of the establishment of joint ventures in the middle and late 1980s and early 1990s ; the continued underdevelopment in some sectors and regions ; and the increasing commercialisation of the market, led to broad liberalisation of sectors and regions in the early 1990s.

- An extensive review of the subject specific literature finds that the main rationales for the establishment of JVs in China from the foreign partner's perspective are based upon local market motives and reduced costs, whereas for local partners it is the modernising effects of the acquisition of technology and finance.

- The main disincentives are also identified as being the lack of a refined regulatory system, the cultural distance, proprietary property protection, the proportional valuation of inputs, and the lack of autonomy.

- JV establishment negotiations have the potential to inflate the cost of participation with additional costs being incurred in the areas of finance and market access, despite which the majority of JVs are profitable with performance levels being similar or higher than those in other locations.

- The majority of foreign partners acquire equity majority and management control of their JVs as a measure of investment protection, self-determination, and partner dominance. However, the continuing involvement of the authorities amounts to a reduction in JV autonomy.

- The majority of local partners eventually assimilate an independent level of competence, despite the fact that almost half of foreign partners 'contain' proprietary knowledge within their expatriate staff. The acquisition of an independent level of competence in all areas leads to conflict, and is most often terminal in the area of technology.

- Performance is highly correlated with efficiency, which results from experience and is, therefore, most often possessed by mature JVs. The performance and efficiency relationship is also highly correlated with a synergistic effect between the partners, and promotes continuity and security of tenure.

- The broad implications for foreign partners are that they should negotiate on the establishment of JVs in China on the basis of intangible inputs ; they should retain practical and legal control of essential inputs ; focus on achieving targets as a minimum measure of achievement ; promotion should address regional and cultural circumstances ; 'contain' and internalise independence empowering proprietary knowledge ; a balance should be struck between joint venture establishment size and the strategy and extent of market access sought ; and there should be maximum non-independence empowering participation to maximise partner synergies.

- The main implications for local partners and the authorities are that they should focus their strategies on joint venture performance rather than on foreign direct investment acquisition performance ; provide a regulatory framework which allows joint venture autonomy ; simplify the establishment process ; and provide greater proprietary knowledge protection.

- Numerous areas for future research are identified in areas which have been found by this research to be under-represented in studies into joint ventures in the People's Republic of China.

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Abstract

Joint Ventures in the People's Republic of China

This research reviews the development of JVs from the 'open door' policy of 1979, when China allowed inward investment to acquire the modernising influences of advanced technology, finance, management, and access to export markets, in exchange for providing access to lower production costs and the opportunity of entering and developing China's domestic market. The acquisitive motive underlying China's strategy was clear at the outset from the basis of negotiation on the value of the respective inputs of the partners, and in that up until 1986 entry was allowed only by way of locally participated JVs, which were subject to targets and controls imposed by the authorities. As foreign partners became more familiar with the local environment, the involvement of the authorities became viewed as a limitation to self-determination and a deterrent to participation in JVs in China. The authorities responded to maintain continued fdi by gradually liberating both sectors and entry modes, such that foreign equity majority, foreign management control, and wholly foreign owned enterprises are commonplace.

A large scale review of the subject literature and an in-depth analysis of case studies have revealed that some limitations to JV autonomy still exist, although it is found that newer JVs are subjected to fewer targets and controls. The main problems are identified as being in the partner interdependence, regulation and environment, and legal and infrastructure areas. The analysis of effective strategies has identified that management control and proprietary knowledge retention strategies ; target and control, and cultural compliance ; the registration and retention and licensing of proprietary rights, and the creation and development of distribution channels and appropriate marketing strategies, enables JVs to achieve performances comparable to those in other locations. A variety of implications for both of the parties and the authorities concerned have been identified by this research, as have numerous areas for future research.

Chapter One

Introduction

This chapter provides an overview of this research from the first principles of the reason and importance of study in this area, through to the value of the contribution made by the findings herein. In doing so, this introduction acquaints the reader with the flow of reasoning from the conceptual *importance* of participation in China, and on to providing *perspective* for the research by way of a brief discussion of historic, geographic, and demographic factors, without which the scale, cause and effect, and limitations and opportunities, would not be adequately appreciated by the reader. Joint Venture (JV) strategies are evidently beneficial to both local and foreign partners, and this chapter outlines the *objectives* of studying the JV mode of participation in China, and considers the *contribution* made by this work. The design of the research *methodology* is explained, as are the *conclusions* resulting from the testing of the hypotheses.

1. The Importance of China

China emerged from its self-imposed isolation and re-entered the world trading community by way of the 'open door' policy in 1979. The proportional size of the country and the relative magnitude of its advantages, make this arguably the most significant influence on the international marketing scene since World War II. The resulting sudden enlargement of the world market has been out of scale in terms of normal growth and decline patterns, in which developed nation demand had previously remained more or less stable with the greatest growth, albeit small and slow, having been available in developing nation markets. Financial markets, companies, production capacity, labour, ports and harbours, transportation, raw materials, energy suppliers, and so on, had planned and built in tolerances to accommodate relatively small changes. The problem created by the emergence of China, has been to take first world industries beyond these tolerances, in the areas of competition and supply.

China has the potential to increase the number of global consumers by 30%, and further development of the country could result in a 50% increase in world trade. The growth of the China market from early demand for infrastructural projects, through to its maturity phase with mass demand for consumer products, could either pose huge market opportunities for first world companies, or a devastating competitive threat. Which of these alternatives confronts the foreign company largely depends on the market entry mode employed, the most frequent of which has been the IJV.

The advantages of participation in China are so great at this time and, the benefits available to foreign companies are so large, that companies dependent upon international business must have a China agenda in the short to medium term. There is a 'hunger' to acquire products and technologies for local production to satisfy the burgeoning China market, and from such a low level of domestic development, that almost any manufacturing concern in the developed world would be qualified to contribute to an equity JV in China, along the lines of the 3 conditions of Dunning's Eclectic Model (Dunning 1988a).

The urgency alluded to is not founded upon the possibility of a competitor taking over the whole China market, because the size of the market leaves a lot of room for many entrants in many industries. Rather that the prime JV partners in the main provinces would be 'snapped up', and their influence, distribution channels, and market access are likely to be important advantages later, when expanding into other provinces, especially when competition becomes more severe with economic development and market maturity. However, the China market itself is often only a part of the equation, it is frequently the global perspective which drives the imperative to engage in China. This is based upon the risk of a competitor acquiring global competitive advantage by way of Chinese location specific advantages of low-cost production and materials, or by improved global scale economic benefits resulting from additional access to the large Chinese market.

2. Background Perspective

This research takes into consideration the environmental and infrastructural evolution of the China market, to provide perspective to both the inputs which have developed over different periods in changing circumstances, and the derived conclusions and implications which are contemporary. Therefore, it is appropriate to review the background perspective of the development of JVs in China along the following lines, and in greater detail in Chapter Three.

China is almost forced to be a regionally based market by the physical barriers which separate and concentrate population and its industrial and other activities, into the 10 physiographic macroregions identified by Colin Mackerras in his *Introductory History of Eastern Asia* (1992). The quasi self-sufficient isolation of these regions has been advanced by central government policy which has distributed industrial and manufacturing activities around the country to provide widespread employment, to overcome the problems caused by inefficient transportation systems, and also to retain the support of the Provinces by being seen to treat them all equally.

The regions tend to centre on river, canal or road networks which provide transportation and communications for local industries. The jobs created attract large numbers of younger workers (18 - 30 year olds) from agricultural areas into the urban areas, creating cultural, ethnic, tradition, religion and language 'traps'. The central government's strategy of creating local self-sufficiency, when coupled with the physical isolation and the natural groupings has led to the levels of provincial 'independence', industrial protectionism, and local patronage which receives much attention later in this research in the area of market access.

However, whilst physical and infrastructural factors had created a somewhat fragmented country, from which the events of recent history have created even greater disadvantages. China had a succession of 5 year plans after the communists came to power in 1949. These were variously successful and led to several initiatives e.g. 'The Ten Major Relationships' of 1956, 'The Great Leap Forward' of 1958, 'The Cultural Revolution', and 'The Four Modernisations' of 1978, which themselves resulted in the abandonment of the isolationist Marxist-Maoist dogma which had stalled economic development. China's industries were so outdated, and China's economy so disadvantaged, that foreign investment providing management, investment, technologies, products, and export channels by way of Joint Ventures (JVs), has proven to be the mode of choice for entry into China.

China is the second largest recipient of fdi, accounting for half of all in the developing world. Almost two-thirds of such investment has taken the form of equity participated Joint Ventures (JVs) between 1979 and 1994. This level of participation in JVs has continued despite the availability of Wholly Foreign Owned Enterprises (WFOEs) as an alternative since 1986, and has been encouraged by the lifting of some fiscal restrictions and the opening-up of further industry sectors and geographic areas. However, the lack of total self-determination resulting from the involvement of the authorities, and the inevitable dissemination of proprietary knowledge, when coupled with the growing experience of the China market, has led to the increasing popularity of WFOEs. The authority-participated approval target, supervisory and dispute resolution systems (described in Chapter Three), are intended to limit JV failure resulting from intra-partner conflict. Although, there is no evidence that JV failure is any less common in China than it is elsewhere, and it is found that conflict results from similar causes.

3. The Research Objectives

The main objectives of this research are to broadly investigate the *'efficiency'* of the JV mode of participation in China; the balance of *advantage*, *opportunity* and *threat* attaching to the participants; and the continuing *relevance* of the strategy given the economic development since the 'Open Door' policy of 1979. In particular this research provides insights into interactions between the critical components, such as, for example, the propositions that JVs in China are burdened with *high costs* which negatively affects their *returns*, or that *advertising* produces only a moderate positive effect on *sales*, i.e. the *efficiency* and *opportunity* objectives respectively. A large number of interactive propositions are made herein, the sum of which provides a detailed strategic overview of many of the critical components of the main objectives for the establishment of JVs in China. Thus this research is structured to investigate the design of effective JV strategies, and appropriate conclusions are made from the sum of the detailed investigations into their performance.

The specific areas covered are broadly based and include contentious and frequently reported features of IJVs in China derived from the subject literature as discussed in Chapter Four, as follows :-

1) Establishment and operational costs.
2) Equity majority and management control.
3) Management control and optimal development.
4) State Owned enterprises (SOEs) and market access.
5) Export commitments / foreign exchange earnings and conflict.
6) Commercial development, supply system infrastructure and market access / penetration.
7) The effectiveness of advertising on sales.
8) The value / price relationship as related to consumer characteristics.
9) The motivation of local partners to form JVs based upon foreign brand / local brand consumer preference.
10) The motivation to form IJVs to acquire technology.
11) The dissemination of proprietary knowledge and the incidence of conflict.
12) Proprietary knowledge / technology retention and the continuity of JVs.
13) The relationship between product based inputs and partner leverage and income.
14) The relationship between market access and JV performance.
15) Market access and physical and infrastructural limitations.
16) Politico-economic issues and market access.
17) The level of profile of JVs and the authorities.
18) The magnitude and ease with which money is being made in China within IJVs.

19) The cultural interplay between customers and suppliers as compared to western markets, and the impact of sales force marketing on JV performance.
20) The impact of Research and development (R & D) on performance, costs, and variation by industry, partner and operation length.
21) The impact of JV size on performance.
22) The relationship between JV age and duration, and JV performance.
23) The interaction between pricing strategy and operation length.
24) The impact of Industry performance on domestic performance and exports,
25) The relationship between JV Performance and partner synergies.

These features are the basis upon which the 21 hypotheses hereto are formed, and are discussed in detail and referenced in Chapter Five, according to their original source and also the influence of other previous research work.

This research goes beyond a frequency analysis of the incidence of e.g. *opportunity,* and *threat*, with the intention of investigating the critical components of the main objectives, to provide a richer understanding than would be available from a simple frequency analysis alone. Such critical components also provide an evolutionary perspective which can indicate likely future conditions, and which in turn facilitate strategic planning, to exploit opportunities, avoid threats, and engender efficiency.

4. Methodology

The methodology used in this research is correlational and based upon a hybrid qualitative and quantitative regime, whereby the key elements are received from the analysis of exploratory information, and previous subject literature. (see Chapters Four and Six hereto). The information acquired from these sources is analysed and discussed in the formation of the detailed propositions and their orientation in *The Research Hypotheses* as outlined in Chapter Five. The resulting 21 hypotheses are *tested* in Chapter Seven and Appendix Two, against the data of the 24 Case Studies detailed in Appendix Three, according to the analytical regime laid down in Chapter Six, with the Conclusions and Implications being reported in detail in Chapter Eight.

A detailed questionnaire and an interview format have been developed and structured along the lines of the received key elements of previous literature, as above (see Chapter Four and Appendix Four). These include both qualitative and quantitative information obtained from the case study subjects, which have been entered into a computer statistical programme matrix having some 4176 units of data (see Appendix One), from which various analyses have been performed (see Appendix Two). These analyses take the form of the statistical methods identified in Chapter Six hereto, many of which are correlational thereby revealing the relationship of factors, whereby incidence within one of the 174 variables, is related to one or more other variables to indicate the degree of any relationship between them. Other analyses operationalise case study inputs with environmental data e.g. sales data / inflation / regional economic development; to acquire frequency, principal component data, or within regression methods to define the relative interdependence of variables.

The propositions made in the hypotheses are addressed in the first instance on the basis of the qualitative information derived from the case studies, the results of which provide direction to the statistical analysis. However, not all of the statistical analyses performed within the computer program are based upon quantitative data, some of the inputs are clearly qualitative, and provide a hybrid richness when they are entered into the analytical regime on the basis of their frequency or incidence. The inputs into the data matrix take three different forms; some are *nominal* data signifying categorical characteristics; other data is *ordinal* indicating the extent relationship of an entry as compared to others i.e. 'more' or 'less'; and finally some data is *interval* data providing a value comparative e.g. age and income. Whilst in a simple frequency analysis some of these kinds of data would only produce a 'count' of incidence, in this correlational analysis they are used to produce data indicating complex relationships, and involving numerous other variables.

5. Contribution

Few research projects in this area have involved as large a *database* resourced from dedicated *case studies*, exploratory *environmental inputs*, and a substantial *literature review*, as are involved in this research. Even fewer have addressed as large a number of interrelated hypothetical propositions, on such a wide range of issues. The fact that this research is contemporary adds importance to it given the evolution of JVs in response to economic development, and it is also generally indicative of circumstances given that it has no industry, JV age, size, regional, national origin, or other intensivity.

This research targets the main strategic components, and thereby reveals not only the effectiveness of various strategies, but also the interaction between variables, by way of correlational analysis which provides an insight into the interdependence of critical factors. This in turn provides more than just an understanding of e.g. advertising efficiency in terms of turnover, by providing data which can be used to decide on strategic posture, as in e.g. the choice between concentrating effort locally or seeking wider market access. Decisions made on the basis of a known incidence or frequency alone, as in e.g. competition pricing or consumption, do not contemplate the likely effectiveness of strategy beyond a guess based upon experience elsewhere. Whereas, correlational analysis and other tools employed herein, reveal the relationship of factors and indicate likely outcomes within significant levels of confidence. A variety of hypothetical situations derived from reported circumstances and apparent risk situations are tested accordingly within this research, and reported on the basis of their contribution towards a comprehensive understanding of strategy effectiveness.

The breadth of coverage and the depth of the analysis in this research, provides valuable information to all parties involved in JVs in China. The objective and impartial treatment of the subject is based upon inputs from both foreign and local sources, and results in conclusions indicative of the prevailing circumstances related to JVs, and implications for current and future joint venturers in China (see Chapter Eight).

Therefore, this work is useful to both existing and future JV partners in China by providing a detailed analysis of risks and opportunities, and defining strategy components which achieve the greatest efficiency. These would indicate to existing JV partners possible adjustments to strategy and tactics, and enable prospective participants to formulate a beneficial strategic posture.

Local partners and the authorities can also benefit from this work in understanding the strategies and motives of foreign partners in establishing JVs and accessing the local market, and beyond in understanding foreign partner strategies as related to third markets and global strategies. These findings also indicate refinements in the areas of incentives to foreign investors, and improvements in regulations in areas which tend to inhibit participation.

Furthermore, whilst this work enables participants in JVs in China to understand the position of their counterpart, it also provides an understanding of their respective positions to enabling-input providers such as Bankers, Insurers, Transporters, Advertisers, Investors, Lawyers, and Government Departments. The information provided enables these interested parties to offer products and services attuned to the needs and circumstances prevailing in JVs in China. It follows that the findings also have implications for further academic research, and specific issues and areas are proposed in Chapter Eight.

6. Conclusions

The conclusions to this work are too complex to reiterate in this Introduction, although the following are just a *few* examples to indicate the comprehensive *breadth* of this research basis, and the rigorous *depth* of the investigations. The main objectives to this work, as defined in *3* above, are drawn from those areas which are identified most frequently in the literature (see Chapter Four Figure 4.1) and more specifically focus on; *Costs, Management Control, Market Access, Exports and Foreign Exchange, Advertising, Consumer Issues, Motives and Competence Strategies, Competencies and Conflict,* and *Performance and Competition.* The investigations into these areas are specifically served by the 21 hypotheses hereto, and are tested to reveal findings which are themselves the conclusions to this research, as reported in detail in the same format as above in Chapter Eight (*1. Conclusions*). These findings include the following brief observations :-

Costs, which are often reported as being high, are found to be almost always inflated in the process of the establishment of JVs, owing to the negotiable value of intangible inputs contributed by both sides, and most frequently by the local partner. Although, in spite of inflated establishment costs, a significant majority of JVs are profitable with a favourable comparison in ROI when compared to those in other locations. Contrary to other reports, JVs do not appear to be excessively burdened with costs as suggested by Seo (1993), and whereas the underdevelopment of the market does have a cost implication, such burden is not found to outweigh the advantages, contrary to the suggestion by Rondinelli (1993).

The majority of JVs in China are with state owned enterprises (SOEs) which are known to be inherently inefficient. Foreign partners, therefore, seek *Management Control* to ensure that their investments are not put under the influence of previously failed management. They also seek to retain self-determination and critical independence empowering functions and knowledge under their own control. There is evidence that management control offers the protection, self-determination and partner dominance that the possession of equity majority and management control implies. The approvals and control mechanisms and targets often make the partner responsible to the authorities, but such targets are rarely sufficiently frequent or severe, and are more often met, such that equity majority and management control do result in a measure of independence. This is in line with the observations of Pan & Parker (1997) who found that the authorities have a reduced influence on the management of Chinese enterprises i.e. SOEs, when private or external investors are prominent at board level. Whereas in fact the measure of self-determination remains unchanged, indicating that controls and authority are still present, albeit that they are target / approval oriented instead of being management participative.

Market Access is most efficiently acquired by forming JVs with local partners who have experience in the same industry. Many local companies are found to be locally intensive, and as a result market share tends to be much greater nearby than further afield. The importance of partner selection to acquire effective regional operations, is found to be proportional to the extent of the widespread market access sought. Contrary to Bjorkman (1996) it is found that more than half of local partners provide market access to JVs, and that an average of 10% of sales are made through such channels. JVs do not find cost to be a limiting factor in accessing the market, but the level of their performance is correlated to the age of JVs, indicating that performance increases over time, and does so in line with the extent of market accessed. JVs tend to achieve the level of market access they seek, with widespread access having been achieved in over 50% of cases. The time and work required in market development are found to be greater limitations to market access, than are physical and infrastructural factors. No single impediment to market access has been identified, rather numerous factors of underdevelopment compound to impede access.

The opportunities available in the rapidly growing domestic market results in JVs making greater efforts in achieving domestic rather than *export and foreign exchange* targets, despite having a considerable price / costs competitive advantage in many third markets. Several of the subject case studies hereto, confirm the findings of Luo & Chen (1996), Bass, Cattin & Wittinck (1978), Newfarmer & Marsh (1994), and Willmore (1994), in this respect. These strategies are most often driven by the foreign partners to the JVs, given that they most often retain control of exports.

Advertising is highly correlated with successful JVs in industries in which advertising is prevalent, although advertising usage overall is at a comparatively low level and is mainly introductory in nature, and yet it is correlated with a positive effect on sales. Which is at odds with Luo & Chen's (1996) findings insofar as they claim that advertising causes 'ambivalence' in the consumer which results in an 'insignificant effect on performance'.

75% of JVs experience a high level of price sensitivity, with almost as much low level sensitivity at top-end prices, as there is high level sensitivity at the opposite end of the scale. The *Consumer* is found in this research to be frugal and to have acquired the concept of value and choice based upon the availability of alternatives, although price is still the main value yardstick. This research, in common with others identified herein, finds that 'the Chinese consumer is value conscious and price sensitive', and that he is also influenced by cultural issues more so than in western markets e.g. Confucian principles; which findings are contrary to those proposed by Mahatoo (1990) who reports that 'Chinese consumers value low cost over other product attributes'.

The complex issue of partner motives is discussed in detail herein, from which it is found that the main *motive* of the majority of local partners is the acquisition of technology, although products and brands are also in demand, on the one hand, and market access and other advantages on the other. The partners succeed in acquiring independent or developable levels of *competence* by way of assimilation, when specific knowledge transfer does not take place, although local partners appear to be more successful in this respect. The rate of assimilation is reduced when the foreign partner has management control and 'contains' knowledge, although this most often just delays assimilation which takes place eventually anyhow, and most frequently in the mature phase.

Conflict is found to be correlated with a level of dependence of one party upon another, and increases with a growing independent level of *competence* (these findings accord with Madhok 1995). Bjorkman (1996) made a similar point although he suggested that rather than attempt to retain control and share knowledge of sales teams and distribution channels, many foreign partners develop their own assets and contain such knowledge. The findings of this research are in line with those findings, insofar as the majority of JVs absorb local partner employees for their 'connections', beneficially use local partner's regional operations, and achieve a measure of market access and sales from the local partner's regional activities. Acquired *competencies* which enable independence are more often terminal than is other acquired knowledge, although it is found that all dissemination of knowledge destabilises JVs by removing the interdependence of the partners. The retention of proprietary knowledge tends to maintain the balance of interdependence and is correlated with continuity. The retention of *competencies* and especially technology affords greater leverage and self-determination than does management control and contract terms.

Efficiency and experience are highly correlated with money making *performance* and no easy-money is being made. Older JVs tend to concentrate in top-end price sensitive areas, whereas younger JVs tend to focus on bottom-end and compliant sectors which are highly *competitive* especially on prices. *Competition* drives pricing strategy in the majority of cases, and price is found to be the dominant marketing mix variable. *Performance* is highly correlated with synergy between the partners, the majority of which occur when JVs have the greatest need of partner inputs.

Chapter Two

International Joint Ventures

International Joint Ventures (IJVs) have proliferated recently owing to their ability to enable partners to acquire inputs needed for the development of businesses overseas, at a time of considerable growth in foreign direct investment (fdi). The expected synergies are created from the complementarities and the differences between the partners (Inkpen & Birkenshaw 1994). Therefore, 'IJVs are an expedient way to *crack* new markets, to gain skills, technology, or products, and to share fixed costs and investments' (Lichtenberger & Naulleau 1993, Bleeke & Ernst 1995). This Chapter reviews the extensive literature on International Joint Ventures (IJVs) in general, with the legislative, economic, commercial, management, and marketing environment of JVs in China being discussed in detail in Chapter Three, and the equally extensive literature on JVs in China being reviewed in Chapter Four.

The format of this chapter is in line with the findings of an early study by Koot (1987), which identified the literature on IJVs as falling into the following categories:-

- <u>The Environment and Rationale for JVs</u> i.e. *Background; General Concepts; The Advantages of JVs.*

- <u>Ownership and Control</u> i.e. *The Structuring of a JV; Management Control.*

- <u>Venture Autonomy</u> i.e. *Strategy; Efficiency.*

- <u>Choice of Partner</u> i.e. *Partner Selection and Contributions.*

- <u>Agreement and Protection</u> i.e. *Risk; JV Failure; Country and Industry Based Comparative Studies.*

A background perspective is provided to illustrate the evolution, frequency, geographic and sectoral distribution; and the '*structuring*' of JVs in general are discussed in this Chapter including the importance of bargaining power in the negotiation to establish the relative value of inputs; the stages in planning and managing; the *advantages* of JVs including economy, risk, knowledge, and legal; the acquisition and value of *management* and *control*; *Risk* of loss of e.g. equity or technology; and the magnitude, frequency, and cause of *JV failure*.

1. The Environment and Rationale for IJVs.

Background

International direct investment including JVs grew substantially in the years following WWII, spurred on by the familiarisation and responsibilities that such an engagement creates. The United States was the largest overseas investor accounting for some two-thirds of all foreign investment, with the industrialised countries of Europe providing the balance. However, the importance of the US had diminished by the 1980s with its contributions reducing to 12%, whilst industrial Europe's had simultaneously increased to 57%, with new entrant countries like Japan, Canada and Australia providing the lion's share of the balance with 28% (Christelow 1987). Since 1990 the number of domestic and international alliances has increased by over 25% annually (Bleeke & Ernst 1995), and this increase has been based upon partnership (JVs) rather than ownership (Drucker 1995).

The destination pattern of all kinds of international investment including JVs, has also changed over time with 70% to 80% of direct investment flows in the mid 1970s going to industrial countries, with about half (one-third of the total) going to the US, where 9% of gross product was attributable to foreign affiliated companies by 1984. These direct investment flows had secured important positions mainly in the industrial sectors (mining, petroleum, and manufacturing) of host nation economies, producing some 20% of industrial output in Europe, 50% in Canada and about 30% in Australia and New Zealand by the mid 1970s. By 1984 the US was involved in two-thirds of all international direct investment, being host to 29% and home to 38% (Christelow 1987), with the trend toward JV formation continuing to expand throughout the eighties (Longfellow-Blodgett 1991, Anderson 1990). In more recent years about 90% of all alliances have been between firms from industrial countries, 'and most of them have involved activities in the rich world itself' (Emmott 1993 p.18). Approximately 25% of International Joint Ventures (IJVs) involve combinations of firms from industrial and developing countries (Woodside & Pitts 1996).

Developed countries tend to be less restrictive of foreign partner participation in JV formation at home, than are developing countries, which impose controls for a variety of reasons including; the lack of government experience, fear of exploitation, damage to or loss of opportunities to indigenous industries, and wider economic influences (Young & Hamill et al. 1989). As a result, it is very often the case that the only means of locally based market entry, and equal market access in developing countries is by way of a JV, with equity participation and sometimes a local majority, although not all forms of JV involve the equity or management participation of the foreign partner. JVs can be simple co-operative agreements (CJVs), perhaps founded on the pooling of talents, technology, and market access, in which case the risks are minimised in terms of asset exposure. Given that these attributes apply to all industries, it follows that they may be contributed towards JVs across a wide range of international activities, and the limitation to the formation of JVs of any kind, is determined only by the ability of the partners to contribute complementarily to one another.

Such complementary contributions / benefits can range right across the business spectrum, from finance, production, R&D, and through to all elements of the marketing mix, even encompassing industry specificity to a point where joint venturing becomes an integral part of the business. Examples of this can be found in the extractive industries as in mining or oil exploration (Kent 1991), whereby large financial risks are almost always shared by way of JVs, and thus location access is gained (Harrigan 1984). JVs can also facilitate the spreading of risk, and this is especially important in the extractive industries, wherein shared investment in a speculative venture enables a company to engage in more projects, and thus spreading the risk of below average performance (Kent 1991). JVs can also be based primarily upon production, whilst targeting market development, such that competitive advantage is gained by way of access to a lower cost base. Which improves competitiveness in third markets, thus increasing volume, improves scale economies, thus increasing competitiveness and profits, and so on.

IJVs do not occur just between developed and developing countries, they are most common between developed economies, although the reasons for the creation of IJVs may be different. Developed / developing economy JVs tend to be based upon the acquisition of finance, technology, and management on the one hand, and market access and local knowledge on the other, such that the pooling of assets enables the creation of a new business. Whereas, strategic alliances including those formed as IJVs between developed partners tend to be more for strategy enhancement reasons, e.g. as related to competition as in the case of Metal Box / Carnaud, technology pooling as with British Leyland / Honda, and size and investment risk as in extractive, capital intensive or high technology industries. The former format is growing substantially given the current recession in the developed world, whereas first world companies look overseas for opportunities to compensate for recession starved domestic markets. They are finding willing partners in developing countries, who seek to acquire finance, technology and management skills to develop their own industries. This is sometimes criticised as short-termism in that such technology transfer has the effect of creating a competitor who is likely to be independently competent before the recovery of first world domestic markets, owing to the high rate of JV mortality and the fact that JVs are frequently limited to a given period.

So not only does the application of JVs transcend industry types, market characteristics, level of economic development, a lack of competence, local restrictions, and magnitude of risk, but they also have an equalising effect as between the abilities of smaller and larger companies. SMEs are able to do by way of JVs, what MNEs can afford to do alone. Many industries would remain the exploitative domain of the incumbents, there would be less need for product / technological improvement, prices would be higher, intermediates and raw materials would be exploited as components of non-MNE products. This 'closed shop' effect would stagnate industry in general, just as similar central control, and the resulting absence of competition, had stagnated industries in the centrally planned monopolistic economies of China and the former USSR. JVs liberate competition, and herein lays the success of international JVs, in that without them there are many business activities which would not be possible, monopoly positions which would not be assailable, and a concentration of economic power which would not be politically acceptable. The question of inward investment by way of JVs or WOSs has important economic implications to the host country in the areas of exports, technology development, jobs, foreign exchange control (Cao (1976), Lall (1985), Newfarmer & Marsh (1981), Streeten (1979), Vagts, Svejnar & Smith (1984).

General Concepts

The very large number of studies into the general concepts of International JVs tend to fall into 2 main categories; there are *firstly* those which view the potential of JVs from an *integrative and comparative entry mode perspective* as in Beamish & Banks (1987), Burgers et al (1993), Chowdhury (1992/2), Connolly (1984), Cravens et al (1993), Geringer (1991), Hagedoorn (1993), Harrigan (1984 & 1985), Hill et al (1990), Ingham & Thompson (1994), Inkpen (1996), Inkpen & Birkenshaw (1994), Kent (1991), Madhok (1997), Stopford & Wells (1972); and *secondly* there are those studies which concentrate on the *structural, managerial, performance, and control issues* as in Beamish & Banks (1987), Connolly (1984), Contractor (1984), Hagedoorn (1993), Harrigan (1985), Holton (1981), Koneiczny & Petrick (1994), Longfellow-Blodgett (1991), Tallman & Shenkar (1994), UNCTC, Walmsley (1982), Young & Hamill et al (1989).

The view taken by the first group of authors above, is based upon the aim of JVs, e.g. *'partnerships in creating an entity to carry out productive economic activities'* (Harrigan 1984), or as a *'deliberate alliance of resources'* (Walmsley 1982 and 1984, Cravens et al 1993, Hagedoorn 1993). *'In creating a more competent whole'*, (Harrigan 1985) suggests that JVs should not signify any individual weakness in the partners, instead we should consider them as a source of competitive advantage (Geringer 1991), which is derived from the partners' ability to concentrate on their specialist area. This principle of an accrued greater competence is also commended as an important strategic weapon in the global marketplace (Harrigan 1985, Chowdhury 1992/2), which allows greater operational efficiency, optimal financing and reduced risks (Harrigan 1984, Cravens et al 1993) and reduces demand and competitive uncertainty (Burgers et al 1993). Economies also result from the pooling and sharing of resources, which includes the knowledge base (Inkpen 1996) and reduces the problem of uncertainty (Beamish & Banks 1987), depending upon the type of entry mode (Hill et al 1990, Madhok 1997).

The complementarity of contributions of firms from developed countries to ones from developing countries is cited as an example of the suitability of JVs in the international perspective, owing to the mutual benefits which accrue to the parties which would not be available in a common domestic situation (Connolly 1984). In a JV, two or more organisations are brought together because of their *complementarity and* their *differences* (Inkpen & Birkenshaw 1994, Geringer 1991), to form an independent entity (Cravens et al 1993). The advantages of which arrangement as proposed by one study (Walmsley 1982) include *financial* benefits in that capital outlays are reduced; *synergy* whereby the sharing of resources results in increased efficiency and cost savings (Ingham & Thompson 1994); reduced *management commitment* resulting from the shared workload; *risks* are reduced by both the shared capital exposure and also as a result of the cumulatively greater knowledge base (Kent 1991). *Control* may be total or sufficiently effective irrespective of the shared nature of the business, depending upon the position of the local partner (Stopford & Wells 1972). *Local knowledge* may facilitate faster and longer lasting local market penetration, and local product preferences.

The other view of International JVs taken by researchers is from a *structural, managerial and control perspective*. One basic construct of which is the partners' interrelationship (Harrigan 1985) which derives from the negotiation of the bargaining agreement (Longfellow-Blodgett 1991). A model structure of a JV relationship is proposed and allied to a model of JV activity, the suggestion being that there is a minimum of terms and conditions. However, a reverse proposition is made (Contractor 1984) suggesting that the target benefit from a JV should be established first, and the JV Agreement should be structured to apportion the benefits accordingly. Similarly, Konieczny & Petrick (1994) propose a management planning model aimed at reducing failure rates and promoting efficiency, suggesting that structure is critical to success. Although, Dussauge & Garrette (1995) have found that the adoption of a more structured organisation to a JV does not of itself lead to success.

The essentials and pitfalls in formulating and managing JVs have been variously analysed by numerous researchers (Beamish & Banks 1987, Connolly 1984, Contractor 1984, Hagedoorn 1993, Holton 1981, UNCTC, Walmsley 1982, Young & Hamill et al. 1989), the sum of which leads to a strategic approach to stages in the achievement of a successful JV Agreement. Similarly, the motivations for JV formation have been enumerated as falling into 3 main categories (a) *Internal Uses* (b) *Competitive Uses* and (c) *Strategic Uses* (Harrigan 1985), and JVs can be structured accordingly (Tallman & Shenkar 1994).

The Advantages of Joint Ventures

JVs are an enabling strategy, they enable a company to acquire from a partner, and to contribute in exchange, assets which the other does not possess, and to engage in a business which neither could do alone. It is said that the implicit loss of control and sharing of profits is far outweighed by the benefits (Contractor 1984). They can be a source of competitive advantage and defend strategic positions (Harrigan 1985), which in turn can have wider market influences in increasing competition by, for example, enabling SMEs to compete with MNEs, thereby distributing market share, and avoiding monopolistic / oligopolistic control.

A definition of the reasons for the creation of JVs illustrates the benefits which have engendered the evolution and proliferation discussed above as (1) the creation of greater market power by combining resources or generating economies of scale, (2) the avoidance, reduction or sharing of risk, (3) the acquisition or sharing of information, (4) to overcome cultural, political, legal impediments or host country requirements, and (5) to manage rivalry in an industry by turning competitors into allies (Berg et al. 1982).

Internalisation theory suggests that it is preferable to retain control and the benefits of ownership specific advantages within the firm, since this would avoid the strategic risks, opportunism resulting from a lack of complete knowledge, lack of total self determination, and the costs associated with creation of a JV. However, it is clear that an internalisation strategy is not open to all, or in all situations, and it is the enabling feature of JVs which has resulted in their popularity. It has been shown that there is a greater revenue potential to be derived from the complementary contributions of the partners (Beamish & Banks 1987). The synergistic effects of such contributions also creates benefits which would not accrue to either partner in isolation, such as might result from the pooling of technology, local knowledge, information, and methods, and not least the scale economic benefits of increased size. The level of uncertainty based upon the lack of local knowledge and infrastructural access is greatly reduced, resulting in economies and risk reduction.

JVs have been described as having a 'clarity of purpose' (Walmsley 1984) which results from the statement of the venture's objectives as embodied in the agreement between the parties. A clear statement of objectives focuses effort and avoids disputes by binding both parties to precise responsibilities. This co-responsibility goes beyond the normal statement of objectives of the formation of a company, which mainly deals with ownership and beneficial rights, and has the effect of evidencing and thus enforcing an agreed level of performance from either party. Although difficulties have been observed related to 'moral hazard', resulting from the impossibility to cover all contingencies, and even if it were possible to do so, it would be impossible to enforce such a contract (Arrow 1985).

The main advantages to participation in JVs have been derived from the literature as being; reduced *Financial Commitment* enabling market expansion on a greater scale or in several markets simultaneously; the *Synergies* derived from the contributions may result in cost savings and efficiencies; *Management Commitment* may be reduced over time; the sharing of investment and the pooling of knowledge, experience and know-how can result in a *Reduction of Risk*; *Control* can be acquired even in minority-owned JVs; the localisation image created by JVs can result in *rapid market access,* and *depth and long term market penetration*; there is also a *flexibility* attendant to JV strategies which results from the breadth of partner competencies, and which may not be available within a WOS (Young, Hamill et al 1989). However, there results a complex balance of arguments based upon the outline benefits and risks which can result from JVs, and these have been posited as follows :-

Figure 2.1.

Arguments for and against a Multinational Organisation Forming a JV

For	**Against**
(1) Economising on managerial or	(1) The possession of an intangible
other human contributions.	assets puts the joint at risk
because	the other
partner may steal the idea	or
expertise.	
(2) Risk minimisation of extremely risky investments.	(2) Control may be troublesome.
(3) Diversification of sources of supply.	(3) The free rider problem.
(4) Overcoming large initial investments.	(4) World-wide versus local points of view.
(5) Overcoming lack of certain skill or expertise.	(5) Transfer pricing problems.
(6) Governmental requirement.	(6) Host government regulation.
(7) Economising on information require-ments or expertise about foreign investments.	

Derived from Caves 1982.

2. Ownership and Control.

The Structuring of a JV

Bargaining power models have dominated this area of research, and generally state that the form that a JV takes largely depends upon the negotiated outcome between the partners, which in turn depends on their respective bargaining power. 'The bargaining model concerns the level of control that prospective partners can obtain, given the assets that they command.......equity ownership is seen as an outcome of negotiation, a representation of relative power' (Fagre & Wells 1982, Longfellow-Blodgett 1991). Six factors have been identified as determinants of bargaining power; benefits, costs, resources contributed by the parent, alternatives available for achieving their objectives, need to cooperate, and barriers to co-operation (costs and other disadvantages) Hamill & Hunt 1996. Therefore, the relative bargaining power of JV partners is determined by who brings what and how much to the venture (Harrigan 1986), and bargaining power gained by the partners tends to be proportional to the JV's dependence on the resources contributed, which are 'costly or impossible for others to replace' (Root 1988), especially when these are critical to the venture's success (Harrigan & Newman 1990, Yan & Gray 1994). The bargaining power of the contributing JV partners has been put into perspective by 'the greater the firm's resources......for achieving their objectives, the greater is their bargaining power'. On the other hand, 'bargaining power is reduced, the greater is the need......and the higher are the barriers.....' (Young, Hamill et al 1989, Connolly 1984, Hamill & Hunt 1996).

Studies carried out by Tromsdorf & Wilpert 1991, and Parker & Zeira 1996 have sought to evaluate the different facets of partner characteristics and their contributions, both as factors of success, and in terms of their relative importance. Although it is clear that any relativity is bound to be case specific, and that the value of attributes will vary according to circumstances, such that a hypothesis, for example, that market access is more desirable than technology because it attaches stability to a JV, has not been supported by the empirical evidence in one study (Kogut 1988) , and Lecraw (1984) argued that technology is the dominant resource. Similarly, Longfellow-Blodgett (1991) finds that the possession of technology tends to outweigh local knowledge or marketing systems, although she also found that the most unstable IJVs are built around these same two categories of contributions.

Studies have identified 15 categories of strategic contributions desired by partners when establishing IJVs; regulation, financing, government subsidy, management, employees, site, low costs, patent, trademark, rapid entry, full line, government sale, local identity, marketing, and service. The varying need for such a broad variety of contributions indicates the importance of partner selection, i.e. the source of the contributions, which can influence the overall mix of available skills and resources of a JV (Geringer (1991), Lichtenberger & Naulleau 1993).

It is said that a JV is only as good as the partner (Young & Hamill et al. 1989), and the value of contributions may not be clear 'until the partners have firstly agreed on a business plan' (Holton 1981). However, certain common shortcomings have been observed in the *structuring* of JVs (a) IJVs tend to be created and managed in a series of short steps, typically along the lines of finding-searching-thinking-deciding-doing-evaluating, with the concern in some case studies as to whether the information is related back along this path, (b) the search for partners tends to be 'limited, biased and messy', with partners being accepted or rejected without comparative evaluations, (c) partners tend to overestimate the common ground between them, almost as though they see their function as creative at the early stage rather than evaluative, which can lead to eventual conflict and failure (Woodside & Pitts 1996). So the creation and *structuring* of a joint venture should go through a logical sequential process of identification of objectives, feasibility, potential partner(s), business plan, negotiation and formalisation, as outlined in Figure 2.2.

A feasibility study into a potential JV should start with a cost / benefit analysis generally along the lines of (a) estimate the value to the JV partner and to the host country of the assets, (this goes to the root integrity of the formation of the JV, and leads to the development of a negotiating posture and strategy), (b) determine an appropriate and reasonable rate of return..... for the assets, (which delineates the value interplay and negotiating parameters), and (c) determine the mix of ownership and contractual arrangements best suited to achieving the compensation level, (which is the valued result of the contributions) (Young & Hamill et al. 1989, Contractor 1984, Yan & Gray 1994). However, such a cost / benefit analysis of the relative value of the constructs to a JV, must be cognisant of the alternatives to a JV strategy, e.g. licensing, franchising, alliance arrangements (Hill et al. 1990).

Figure 2.2

Stages in planning, negotiating and managing joint ventures.

1. Joint venture objectives
Establish strategic objectives of the joint venture and specify time period for achieving objectives.

2. Cost/benefit analysis
Evaluate advantages of joint ventures compared with alternative strategies for achieving objectives (e.g. licensing) in terms of :

- financial commitment
- synergy
- management commitment
- risk reduction
- control
- long run market penetration
- other advantages / disadvantages

3. Select partner(s)

- profile of desired features of candidates
- identify/screening of candidates and draw up shortlist
- initial contact/discussions
- choice of partner

4. Develop business plan
Achieve broad agreement on :-

- partner's inputs (commitments of finance; technology; management; etc.)
- venture outputs (products and markets supplied; dividend and payout policy; etc.)
- management style and decision-making processes (centralisation Vs local autonomy; reporting relationships; etc.)
- performance evaluation system (accounting and financial controls)
- marketing policies and practices (marketing mix)
- production and procurement policies
- personnel policies
- R & D policy

5. Negotiation of joint venture agreement
Final agreement on business plan

6. Contract writing
Incorporation of agreement in legally binding contract allowing for subsequent modifications to the agreement

7. Performance evaluation
Establish control systems for measuring venture performance

Source : Young, Hamill et al (1989)

Organisational factors resulting from the *structural* design of a JV can influence the likelihood of success and the incidence of conflict. The most common equity design of JVs involves approximately equal sharing of equity i.e. 50% : 50%, 49% : 51%, 51% : 49% between the partners. This indicates that partners embark on JVs in a spirit of co-operation, and that power imbalances and conflict develop over time. However, in his research on JVs in developed countries, Killing (1982, 1983) found that dominated JVs were more successful than balanced partnerships, although Beamish (1984) found this was not the case in less-developed countries. In a similar vein Koh & Venkatraman (1991) have demonstrated that JVs involving partners having related businesses tend to out-perform those having parents of unrelated origins. One study (Figure 2.3) which has looked at the occurrence of role conflict resulting from the structural characteristics of a JV (Shenkar & Zeira 1992), reveals some very interesting insights into such structural influences and we can institutionalise the hypotheses proposed and the findings of the study as a guide to the structuring of JVs.

Figure 2.3.

Role Conflict Resulting from the Structural Characteristics of JVs.

1. The Larger the number of parent firms the greater is the incidence of conflict. : *This was found not to be so, along the lines of a common responsibility / democratic principle which allowed the subject to 'move among the partners' and dilute issues of conflict.*
2. Conflict within JVs with parents of similar ownership structure is lower than in JVs having parents with different ownership structures. : *this is founded upon a similarity of goals.*
3. The greater is the difference in parents' size the greater is the likelihood of conflict. : *this has much to do with the implicit superiority of size.*
4. Conflict is not necessarily overcome by parent dominance, nor by shared management systems.
5. The greater is the similarity in parent objectives, the lesser is the incidence of conflict. : *this is clearly so along the lines of compatibility.*
6. It is very difficult to pre-empt all eventualities in an establishment contract. Contract specificity does not necessarily overcome the incidence of conflict.
7. A large cultural distance may result in a higher incidence of conflict.
8. The longer is the establishment of the IJV the lesser is the incidence of conflict. : *this is clearly along the lines of experience and resolved conflicts.*
9. A JV with greater autonomy is not necessarily one with less conflict. : *because autonomy of itself does not automatically produce satisfaction for the partners.*

Derived from (Shenkar & Zeira 1992). **Adapted for this Thesis by the addition of clarifications in *italics*.**

The high rate of JV failure described as 'a rather dismal history' (Holton 1981), could it is suggested be overcome by more efficient planning, negotiation and management (Young & Hamill et al. 1989). Figure 2.2 offers a framework for the study, analysis, selection, planning, negotiation and formalisation of a JV, in a chronological and tactically sequential format, such that any pitfalls can be identified early, and the relative strengths and weaknesses can be evaluated before arriving at the negotiating table. The UNCTC has listed the major facets of a JV Agreement, and this can also be used as an evaluation checklist when structuring or appraising the performance of a JV.

Lorange & Probst (1987) propose that JVs can be structured so that they design and regulate themselves, meaning that JVs can evolve to achieve greatest efficiency by evolution of the management actions of the JV. Four critical criteria are proposed for structuring self organising systems; *Complexity* refers to the functions of the business, e.g. production, management, finance, how many strategies, partners, and locations, and what is the interaction between these parts. The more complex a JV is then the more difficult it will be for it to be self organising. A JV must be organised to be complex enough to adapt to its environment i.e. *contingency theory* (Pan 1996), and simple enough to be manageable. *Self-Reference* is based upon the principle that whilst a JV should adapt to environmental forces, there are certain basic principles which go to the root cause of the venture which must remain inviolate. This has much to do with ongoing learning by experience as suggested by Inkpen (1996), such that a JV can adapt to circumstances such that it can execute strategic redirection. *Autonomy* is an imperative of self organisation, because if a JV responds to environmental change only to the extent that it affects its parents, it risks maximising its potential and can lose control over its destiny. *Redundancy* is premised on the fact that there is a greater variety of resources built into the system than are actually needed. This gives the JV the flexibility to adapt and evolve, and enable it to respond to circumstances and emergencies in a variety of ways. The four critical criteria proposed impose three archetypal forms of JV according to the distribution of ownership and management control, and thus onto the origin of strategy creation and implementation, i.e. how much of the strategy is imposed by the partners, and by which partner. The balance of the author's argument is that JVs should be structured to operate independently of the parents.

Management and Control

JVs are by definition more complicated to manage because of the dual hierarchies and interdependencies involved (Madhok 1995, Berg et al 1982, Harrigan 1985). The perception of participating in a JV without having management control is often viewed as a portfolio investment, inasmuch as it enables a company to invest in an industry in which it has a main business interest, without any management responsibilities. The lack of management control leads to fears of opportunism on the part of the partner, which is particularly important when proprietary products or technologies are involved (Young & Hamill et al 1989, Inkpen 1996). Thus the successful management and control of JVs is complicated with no special advantages not also enjoyed by normal business structures (Schaan 1988).

Managing JVs has been shown in general to be a particularly difficult process (Killing 1983, 1988, Lorange & Roos 1990), which can lead to conflict, failure and loss of inputs. The retention of management control of a JV can be a protective strategy, in that it enables the partner to maintain the importance of his contributions, thus protecting his position within the JV, and also enables operations to be managed in line with the global strategies of his main business. In this way he avoids the effect of failure of the JV business, and also avoids the risk of empowering and creating a competitor, in the event of failure. The achievement of management control often comes from a negotiation based upon having majority, a superior level of management and technical skills, the level of need in the partner in other areas of the JV, product image, and access to third markets. So whilst 'a JV represents a trade-off between the quest for additional resources and the quest for unambiguous control' (Stopford & Wells 1972), it is possible for multinationals to retain control without having 100% ownership (Young & Hamill et al. 1989). Since all partners are essential to success it follows that even minority shareholders are in a position to exert much influence upon the operation of JVs (Schaan 1988).

Management control in JVs tends to go to the majority equity partner, as Longfellow-Blodgett (1991) finds that 'control is achieved primarily through ownership rather than through other management or network mechanisms'. Although, Schaan (1988) posits that despite equity proportion it is possible to influence JVs as a minority partner, even without having formal management control. This is based on the premise that all partners to a JV are essential, or at least useful to it, at the outset. A minority JV partner can exert influence greater than his equity position might suggest, provided that he has not disseminated or eroded his unique contribution to the venture. We can see how a minority partner in such a position has greater power than his proportional position, if we view the situation from the reverse perspective, in that the minority partner also has less at stake, and the majority partner's need of the minority partner's input is proportionally greater. This principle is the weakness of the argument put forward by Killing (1982) suggesting that one partner dominance minimises conflict in JVs. However, Schaan (1988) recommends that if a minority partner is to exert disproportionate influence on a JV, then he should contribute an equal or greater share of intellectual effort in the management.

Dominant parent ventures tend to be more successful than ones having shared management systems (Hamel 1991), and this probably results from the contribution of a successful business formula, which is not modified by the untested management involvement of the partner. Although empirical work has also found that there is little relationship between control and performance in shared versus dominant JVs (Janger 1980), and another study which tested the hypothesis that 'dominant JVs are more stable than shared JVs', found that this was not supported by the empirical evidence (Kogut 1988). Therefore, it is argued that dominant control is not necessary because the loss of sharing of responsibility is more than compensated for by the other contributions made by the local partner (Tomlinson 1970). Dominant majority-minority JVs have been found to be less stable and to experience frequent renegotiation, whereas JVs with slightly unequal ownership shares (51% - 49%), do so to a lesser degree. JVs which have been previously renegotiated have a greater chance of being adjusted again, whereas equal JVs suffer least in this respect because the balance of power between the partners puts pressure on both sides to make accommodations (Longfellow-Blodgett 1991, 1993, Beamish & Banks 1987).

Three main causes have been identified in one study as reducing the effectiveness of JV control (1) no clear objectives or control needs have been laid down at the outset, which leads to an inability to measure success or failure by the parent, (2) too little management time is allotted to the JV by the parents, and (3) management and control practices and priorities are not adapted to changing circumstances. The same study also identified cases which had been turned around by rectifying such inadequate control. A five-point strategy is deduced from these findings which is designed to enhance the likelihood of successful control; policies governing parental intervention, being diplomatic, governance of the manager, formal evaluations, arrangements for resolving disagreements (Schaan 1988). Similar findings have been made by other researchers and have been proposed as a planning model which promotes the increased timely control and adaptability to life cycle phases and environmental changes (Konieczny & Petrick 1994).

Konieczny & Petrick (1994) propose that treating a IJV as a project in a firm's project management system can avoid many of the problems which lead to failure. An IJV project planning model which consists of a framework for analysis, so that events can be understood in perspective, an IJV scope statement to provide clarity of purpose, and the project contract process to ensure that 'mistakes' are avoided or their influence can be minimised, is proposed. The recognition here being that flexibility must be built in to make the IJV adaptable to life cycle and environmental changes (Lorange & Probst 1987, Lyles 1987, Tsang 1994), and that IJVs and other alliances ought to be entered into with consideration as to the type of operation and governance structure (Hill et al 1990), which might follow their use (Welch 1992). Dussauge & Garrette (1995), however, question whether a more structured organisation systematically leads to increased performance in JVs, and find that this is not the case where one partner promotes the other's products in his domestic market.

3. Venture Autonomy.

Strategy

The strategic reasoning behind the creation of IJVs is most commonly; *capital requirements*, *excess capacity*, *new production methods*, *scale economies*, *global products*, *shared risks*, and *new markets* (Harrigan 1985, Contractor & Lorange

1988). We are told not to view the growth in all forms of collaborative agreements as a sign of enthusiasm. Morris & Hegert (1987) find that the converse is true, in that often companies would seize any other viable alternative. However, alternatives may be limited given the nature of the 7 main motives listed above, and these are further limited when we consider that only about 14% of collaborative agreements are between two firms to make an entry into a new market, and an equal amount is between buyer and supplier. Morris & Hegert (1987) further suggest that over 70% of all collaborative agreements are between two competitors in the same market, although it should be said that there is probably much cross-fertilisation in this analysis.

A strategy involving the use of JVs results in additional costs attributable to the shared decision-making and co-ordination of the partners (Geringer 1991, Harrigan 1985, Stopford & Wells 1972, Killing 1983), mainly owing to the duplication of some functions. Nevertheless, firms form JVs because they believe that the additional benefits exceed the additional burdens (Beamish & Banks 1987). However, the issue of partner selection is not addressed adequately in the literature which deals with the issue mainly in the abstract, assuming that an ideal partner is available to fit the strategic formula. In reality, partner selection is often a compromise between alternative complementary skills or resources (Geringer 1991).

In studying behavioural theory in IJV strategies Woodside & Pitts (1996) approach the issue of decision-making, which is a critical factor in the formation and management of IJVs, from two main perspectives. Firstly the study views decision-making along the lines of the Bounded Rationality Model (BRM) in which limitations and parameters are set at go / no go cut off extremes. This is done comparatively with a similar study using the Garbage Can Model (GCM) which views the decision-making process as a repository into which problems are dumped. Thus problem solving is a variable and changing process, and we might view this process as 'fire fighting' because many problems are evaluated during and after the decision-making process. So, in brief, we could say that the BRM is a structured framework of boundaries within which decisions are made, whereas the GCM is an ad-hoc process. Although, it is doubtful that the two are mutually exclusive, perhaps they should not be offered up as alternatives but rather as stages in the decision-making and implementation process. It follows that there must be rational limitations even in the GCM approach, because decisions cannot be made with endless circumstances, therefore, the boundaries principle of the BRM must be the dominant format. However, it is implicit therein that the BRM does not have the ad hoc flexibility to implement its own decisions, and the GCM has the latitude to implement the same decisions in a stage wise approach. The empirical work done by Woodside & Pitts (1996) to test the efficacy of decision-making processes, was done using actual IJV formations. It was found that several propositions of the BRM appeared to apply to the decision-making processes. However, in all cases the parties viewed the new IJVs as beneficial opportunities and not as problems. So, in this respect the two subject models were not equally applicable, given that there were no ad hoc solutions sought of a GCM, and yet the BRM had a role to play in delineating the operational parameters of decision-making. As a result the authors report that the BRM applied, although clearly requiring implementation and thereby the involvement of some GCM characteristics. Thus as both had a role to play the authors, unsurprisingly, report that no one sequence of decisions is discernible for designing IJVs.

A series of propositions is made by Hill et al (1990) from which a strategic posture can be derived in the light of the variables involved. Among these are firms that pursue a *multi-domestic strategy* will favour low control entry modes to reduce costs and resource commitments (Otterbeck 1981), and enable them to spread themselves further; firms that pursue a *global strategy* will prefer high control entry modes to maintain the integrity of their global business; firms in *oligopolistic industries* prefer high control entry modes; firms prefer low resource commitments in cases of high country risk; great *perceived distance* (unknowns), *uncertain demand*, and *competitive volatility*; the more sensitive the firm is to *dissemination risk* or there is a tacit component of *firm specific know-how* then the firm will favour high control entry modes.

In weighing the strategy pros and cons of JVs, Berg et al (1982) used return on equity as the dependent variable and deduced that 'knowledge acquisition'-intensive

JVs were associated with lower returns on equity, whereas JVs having a creative function e.g. construction, exploration, or production, produced higher returns on equity. Caves (1982) has produced a similar analysis in greater detail whereby *arguments for* an MNC forming a JV include : (a) economising on managerial or other human contributions, (b) risk minimisation, (c) diversification of sources of supply, (d) overcoming large initial investments, (e) overcoming lack of certain skill or expertise, (f) government requirement, and (g) economising on information requirements or expertise about foreign investments. *Arguments against* an MNC forming a JV include (a) Dissemination risk, (b) joint control may be troublesome, (c) the free rider problem, (d) world-wide versus local points of view, (e) transfer pricing problems, and (f) host government regulations (Finnerty et al 1986/2). MNCs which have been successful, for example, in China have charted a course avoiding these latter arguments against engagement in China. Shaw & Meier (1993) observe that they have emphasised simplicity in their strategies in *focusing on their core global products* which are contemporary technologies and keeping next generation technologies at home, *do an absolute minimum of product tailoring,* although such targeted products might help to keep Chinese products out of third markets, *focus on China's main urban centres,* and expanding geographically from there.

Further to the above view of returns on equity from a broad sectoral perspective, Weijan & Hamilton (1991) analyse the motivation for the formation of IJVs from the US - Japan Biotechnology industry, in which US firms have the technological lead and world market access, and the Japanese have more advanced production capabilities and access to their local market. There are inherent limitations to growth for the Japanese companies without international co-operation, and similarly there are limitations to economic development and Japan market access for the US companies, although there is also the risk of technology dissemination for the US Company. The study presents hypotheses which are applicable in other circumstances with similar complementary strengths and weaknesses in the partners, generally as follows: *smaller firms are more likely than larger ones to form JVs with foreign firms,* the reasoning behind this is that smaller and less diversified firms are generally more confined to domestic markets and lack the capability to expand internationally; *the degree of diversification is negatively correlated with the propensity to form IJVs,* this is based upon the level of need; *new entrant firms are more likely to form IJVs,* this is based on ease of access and other competence acquisition; *it is more likely for a co-operative relationship to govern the commercialisation of a product if it is formed with a country specific advantaged origin firm,* country specific advantage is a motivating factor in IJVs; *Japanese firms are more likely to form co-operative relationships involving technology transfer or licensing with foreign firms than with Japanese firms,* country specific advantages motivate international interfirm co-operation; *the functions of research development and manufacturing are more likely to be governed by a domestic JV than by an IJV,* these functions contribute to protection of technology, property rights, and asset protection; *marketing, however, is likely to be governed by an IJV,* because this is a weakness in the Japanese pharmaceutical industry. The frequency of IJVs declines with the increasing frequency of formation of domestic JVs, as country specific advantages tend to decay over time. Thus the empirical results of this study (Weijan & Hamilton 1991) support the general hypothesis that country specific advantages influence the formation of IJVs.

The findings of a study by Franko (1987) show, despite the fact that the majority of the sample IJVs involved a US firm, that American firms taken as a group are reluctant to enter into minority or even 50 : 50 JVs in developing countries. The study was conducted to relate corporate acceptance or refusal of alliances along the lines of four hypotheses; *Oligopolistic Competition* which reveals that such structures prefer to avoid JVs or alliances for fear of loss of the proprietary protection which provides integrity to their system; *Standardisation and Maturity* of companies and products makes it clear that either market leaders or oligopolies will engage in e.g. JVs or other minor companies will; *Protected Markets or Country Specific Advantages* JVs in such situations provide both no alternative market entry for major firms and also smaller and new entrant firms from securing a protected foothold from which to build a major competitive base; *Government Suasion* in this study Franko (1987) shows that companies which are reluctant to form IJVs, and particularly minority positions, have concentrated such activities in countries where they have no choice.

There has been a growing popularity for alliances between competitors in recent years (Harrigan 1985, 1988a, Kogut 1988), and research into this area has thrown up two questions investigated by Burgers et al (1993) viz.: *'what motivates firms to enter into alliances with their competitors?'* and, *'given motivations, which other firms in an industry will a firm ally itself with?'* The issues are approached from two main perspectives, *transaction cost economics theory* which emphasises the use of JVs in enlarging strategic capabilities, and *organisationally* as a means of reducing competition (Kogut 1988, Pan 1996). Based upon these theories Burgers et al (1993) posit that *environmental uncertainty* directs competitors into JVs with one another (Pfeffer & Salancik 1978). Such *environmental uncertainty* which is at the root of Burger et al's (1993) work, is further defined as *demand uncertainty* and *competitive uncertainty. Demand uncertainty* is the efficiency motive whereby competitors join with each other to gain access to capabilities. *Competitive uncertainty* is the market power motive whereby competitors join with each other to reduce competition (Harrigan 1988a), and this represents an important motive for entering into horizontal alliances (Kogut 1988, Pfeffer & Salancik 1978). The relative size of the firms involved in JVs is often indicative of their comparative power base and motives. The authors suggest that large firms seek to increase their powerbase by building organisational control of their partners within their influence. As a result they are unlikely to favour JVs with other large or medium size firms, for fear of empowering a competitor who is of a size to challenge them (Burgers et al 1993). The author's findings reveal that 'the larger the firm the smaller the size of its actual partners relative to the size of its potential partners', i.e. large firms prefer smaller partners and vice versa.

Efficiency

JVs enable faster and more secure market access owing to the local knowledge and contacts of the local partner. The projection of a local image also assists greatly in consumer acceptance and government relations, and thus reduces political risks and market entry lead times, by way of closer contact with markets and customers (Young & Hamill et al. 1989). Cost savings and *efficiencies* resulting from the pooling of assets in the areas of marketing, product development, production and material sourcing, distribution, brands, and the sharing of management functions i.e.

the potential value of the synergies gained when two firms pool their complementary assets (Madhok 1995), can result in a JV business unit which is more efficient than either of the partners' businesses in isolation. Thus in line with *transaction cost theory*, JVs may sometimes be an ideal mode of operation that minimise costs in the context of transnational activities (Pan 1996).

However, one study in comparing the efficiency of JVs as against WOSs found that whilst certain similarities exist, other areas show wide differences, viz. : (1) IJVs provide lower remittances in terms of royalties and fees, (2) the level of production integration is greater in WOSs and so the parent's supply input is higher, (3) IJVs are significantly more leveraged than WOSs, (4) IJVs have a bigger supplier role to their parents than do WOSs, (5) there is little difference of autonomy between IJVs and WOSs, (6) little difference exists between IJVs and WOSs in terms of the level of conflict between MNCs and subsidiaries (Otterbeck 1981). So the analysis required to decide between IJV and WOS modes requires a balance view between the higher income resulting from higher inputs, increased risks, total control and self-determination; as against rapid market access, depth of market penetration, reduced risks and lower investment resulting from the sharing of assets.

Such beneficial sharing of the assets contributed to JVs, also results in the shared commitment of management and resources, a reduction in the need for local familiarisation, and an increased sensitivity to local business trends and practices. Issues of language, culture and market experience become part of corporate strategy at the outset, thus alleviating costly mistakes and the delayed development of effective market strategies. The sharing of resources and information is an attempt by JV partners to eliminate the risk of making 'mistakes', i.e. to act inefficiently. However, 'forming a JV creates a risk in itself, that of managing an entity jointly', with the main areas of mistakes found to be *'poor judgement'*, *'human behaviour error'*, and *'unanticipated events'*, (Lyles 1987). Conversely, factors identified as having an impact on performance are primarily in the areas of (1) partner asymmetries, (2) distribution of ownership and control of the JV, (3) scope and breadth of purpose of the JV, (4) industry structure and competitive context, as well as the organisation of tasks within the JV, have a strong influence on performance (Dussauge & Garrette 1995).

The familiarity with the market which may be gained from the local partner, doubtless increases efficiency and reduces uncertainty, saves time and costs and reduces risks. Although, these 'establishment efficiencies' are improved by 'operational efficiencies' such as access to distribution channels, transportation, sales force access and experience, local corporate image, creditability, and contacts. These are the characteristics of a mature and stable business, and naturally would be the result of a long established local company based marketing effort, but 'it should not be assumed that satisfaction and stability are necessarily related' (Inkpen & Birkenshaw 1994). A foreign WOS seeking to develop a similar stable market position, would have a longer path to success given the learning curve involved in culture, language, infrastructure, and systems, and not least the competition from established local companies, foreign image and local allegiances.

Efficiency in the operation of JVs and alliances of all kinds, is said to be related to the level of knowledge and experience of the participants. Knowledge is distinct from information, in this context, in that information relates to operational actualities, whereas knowledge relates to intangible achievements and circumstances. This knowledge and experience can provide improvements in three main areas; learning to make alliances, learning how to operate them, and acquiring knowledge beneficial in the parent business (Inkpen 1996). Such parent beneficial knowledge can be on a broader front than the narrow confines of a JV (Hamel 1991). Knowledge creation resulting from co-operation can have significant payoffs in strengthening and reinforcing a firm's competitive strategy, in revealing information beyond the identifiable points of input-output sequences, and by creating an expanding community of individuals that amplify, expand and internalise alliance knowledge (Inkpen 1996), and in reducing the risk of making 'mistakes' in uncertain environments (Lyles 1987).

Whilst it has been said that JVs 'are relatively short lived' (Ingham & Thompson 1994, Harrigan 1985, Kogut 1988), Chowdhury (1992) has commented upon

International JVs from a comparative effectiveness perspective in relation to other entry modes e.g. WOSs, and finds that IJVs have a greater longevity than WOSs although they also suffer from a higher level of instability (Bleeke & Ernst 1995). 'An underlying premise of these approaches is that IJVs are chosen as a first best (competing) ownership option, under specific circumstances'. Finnerty et al (1986) suggest from a study of 208 JVs, that no significant evidence of abnormal returns was found. Although profitability has been related to success by another researcher (Lyles 1987), who related overall performance to *operating ease*, *managerial control* and *JV stability*. Several large scale comparative studies have found that a large majority of US based MNCs have expressed highly favourable opinions about the profitability and performance of IJVs over WOSs (Chowdhury 1992, Janger 1980). It was also found by others that WOSs and IJVs have very similar managerial policies towards exports, import procurement, technology transfer, and financial control.

Few researchers have reported on the performance of the various international entry modes. Porter (1987) has found evidence that acquisitions tend to underperform, although Tallman & Shenkar (1994) have shown that economic measures of performance are not always the most important consideration. Janger (1980) and Killing (1983) have shown that JVs suffer from complex management relationships, and that new ventures have an unreliable performance. Research done by Woodcock et al (1994) attempts to discover which entry mode performs better, and cites Harrigan (1985) as having found that industry-specific and strategic factors have a contingent influence on success, whereas in the case of acquisitions others have suggested that negative returns accrue to acquiring firms. It has also been shown that new ventures would have the highest performance i.e. the lowest failure rate, acquisitions the lowest performance, and JVs the median position. Hill et al (1990) placed resource commitment at the centre of the issue when comparing licensing, JVs and WOSs, and suggested that the entry mode is contingent upon resources i.e. the relationship between mode and performance. A firm will tend to prefer entry by WOS if it cannot create the mix of its own inputs and those of a partner e.g. market access. Woodcock et al (1994) also found that 73% of new ventures showed a performance gain or break even, as did 59% of JVs and 57% of acquisitions, although more JVs showed a gain and more acquisitions broke even. This work was based upon a study of 321 Japanese companies entering the US market by way of the various modes discussed, and supports the earlier work of Hill et al (1990), in suggesting that contingency factors affect the transaction costs of obtaining resources which in turn influences mode performance.

Beamish & Banks (1987) find that there is significant dissatisfaction with the performance of JVs, because firms find them difficult to manage. Conflicts of interest and divergent objectives may be at the root of this problem (Harrigan 1985, Berg et al 1982), and one solution to overcoming the inherent problems may lay in the area of formal control through ownership (Gomes-Casseres 1987, Stopford & Wells 1972). Although Beamish (1985) and Tomlinson (1970) suggest that the problem is rooted in the social dimension, in which ownership and control are not viewed as interdependent (Beamish & Banks 1987). A co-operative attitude is suggested by the above authors and also by Tsang (1994) to be the appropriate posture even in the case of majority ownership, as the dominant partner would be better off paying attention to the building of trust. Killing (1983) suggests that the forcing of decisions by virtue of ownership would ultimately threaten the venture, although Kogut (1988) is at odds with Beamish & Banks (1987) and Killing (1983), on the issue of greater stability being more prevalent in dominant JVs.

4. Choice of Partner.

Partner Selection and Contributions

Partner selection is identified by Geringer (1991) as being a critical success factor, whereas *complementarity* as an indicator of suitability is found not to be enough alone. *Co-ordination*, *conflict* and *compromise* in the formation of JVs and the selection of partners can also affect the prospects of achieving the strategic objectives of the venture (Geringer 1991, Beamish & Banks 1987, Killing 1983), as can the posture of host country policy which can be restrictive and frustrate the venture often leading to conflict and failure, and an expanded ownership position for the local partner (Longfellow-Blodgett 1991, Tsang 1994). *'The more clearly that decision making, co-ordination, role definition and conflict resolution are* *determined, the higher the probability of success of the alliance'* (Cravens et al. 1993).

The inadequacy of the complementarity of *contributions* is further refined by identifying core contributions as important success factors (Cravens et al 1993). Insofar as Buffington & Farabelli (1991) found that the probability of success of the alliance decreased when only one partner's *core business* was involved. Furthermore, if neither partner contributed on the basis of its core business, then the probability of success was even lower (Cravens et al 1993). In the same vein, *compatibility* between the partners is defined by Inkpen & Birkenshaw (1994) as an important success factor, and *collaboration* is said to foster longevity (Hamel 1991).

A study into the motives for the formation of JVs (Hagedoorn 1993) tackles the issues from the perspective of strategic technology *partnering and contributions*, to provide 3 groups of motives. The *first* group of which outlined in the literature relate to the sharing and further advancement of research and the avoidance of dissemination of knowledge. Some motives in this area are clearly *specific* to particular research activities, whilst others are related to *general* technological advancement. Amongst the specific motives are influences which reach into the substance of the business such as the reduction, minimising and sharing of uncertainty which is inherent in R&D. Herein lays a risk element because whilst there is a chance that R&D will not produce results, then there is a risk to the business. In this context risk can be defined as the probability of occurrence at a given probability distribution, Whereas uncertainty is the unknown likelihood of an event with no known probability distribution. Hagedoorn (1993) suggests that it is this unknown likelihood of success in research which leads firms to cooperate to create economies of scale and/or scope. The *second* group of motives is related to innovation within JVs, when either or both of the parties may be motivated by the 'hidden agenda' of the possibility of acquiring technology from their partner (Ostroff 1995). A few authors also mention the possible shortening of the product life cycle and that technology co-operation can assist in bringing new products to market sooner. The *third* group of motives relates to market access and technology development, e.g. two geographically diverse companies which individually lack the experience, economic wherewithal and competence to enter into the global marketplace alone. Some JVs are motivated by strategy whereas others are based on cost reduction. R&D JVs have been found to be over 85% strategically motivated. In technology based JVs, 3 motives dominate the reasons for the formation of JVs; technology, innovation time span, and market access, with the first two motives being the most important.

Studies carried out by Tromsdorf & Wilpert 1991, and Parker & Zeira 1996 have sought to evaluate the different facets of partner characteristics and their contributions, both as factors of success, and in terms of their relative importance. Although it is clear that any relativity is bound to be case specific, and that the value of attributes will vary according to circumstances, such that a hypothesis, for example, that market access is more desirable than technology because it attaches stability to a JV, has not been supported by the empirical evidence in one study (Kogut 1988) , and Lecraw (1984) argued that technology is the dominant resource. Similarly, Longfellow-Blodgett (1991) finds that the possession of technology tends to outweigh local knowledge or marketing systems, although she also found that the most unstable IJVs are built around these same two categories of contributions. Studies have identified 15 categories of strategic contributions desired by partners when establishing IJVs; regulation, financing, Govt. subsidy, management, employees, site, low costs, patent, trademark, rapid entry, full line, Govt. sale, local identity, marketing, and service. The varying need for such a broad variety of contributions indicates the importance of partner selection, i.e. the source of the contributions, which can influence the overall mix of available skills and resources of a JV (Geringer (1991), Lichtenberger & Naulleau 1993).

Geringer (1991) regards partner selection as a critical success factor (CSF) and supports the hypothesis that an ideal partner should have complementary activities and connections, indeed some strategies are in practice partner-type dependent. Although the author's second hypothesis suggests that the relationship is inevitably finite, in that as the foreign JV partner gradually acquires the component CSFs then the importance of the local partner as a CSF diminishes. Although long term need for a partner and his contributions has been strongly related to success of IJVs, despite the allocation of resources and effort or the passing of time (Beamish 1985). The third hypothesis states the obvious in that the more difficult it is to achieve a CSF, the greater its importance becomes, and the more important is the selection of a partner who can provide it. Therefore, partner choice is an important variable affecting the resource base and viability of IJVs (Geringer 1991), and can influence the parent at the strategic level given that the strategy implementation may be dependent upon the abilities of the partner and the effectiveness of contributions. As hypothesised by the author, the CSF and difficulty of internal development variables, generally evidenced very significant positive relationships with the relative importance of task related selection criteria and overall strategic posture.

5. Agreement and Protection.

Risk

Risks involved in participating in JVs can go beyond the reported high levels of conflict, failure and loss of invested equity. They can result in costs on the parents by way of JV insolvency, liability and default, and loss of core resources (Hamel 1991), such as proprietary knowledge, patents, trade marks, and markets. Such risks can result from external influences or as a result of 'a lack of a spirit of collaboration (for the creation of the pie), and competition (for the distribution of the pie)' Madhok (1995). The level of risks can vary and one study has found that they can influence the choice of entry mode, insofar as the higher the risk, the more ownership control is desired (Agarwal & Ramaswami 1992, Woodcock et al 1994).

That IJVs inevitably involve operating in uncertain, changing, and unfamiliar political environments, and benefit from the flexibility available in a JV structure is discussed by Lyles (1987). However, given the wide variety of human behaviour and unanticipated events, mistakes are inevitable, and the reduction of *risks* and the minimisation of making mistakes in uncertain environments, is one of the reasons for the formation of JVs (Tsang 1994). Such risk and mistake avoidance comes from the sharing of resources and information, although the very formation of a JV creates a risk in itself, that of increasing the number and variety of risk inputs, i.e. more owners each with their own strategies, and ambitions. Lyles (1987) concludes that the main areas of mistakes in the management of JVs generally are in the areas of *Technology, Human Resources, Negotiations, Partner Rapport,* and *Goals and Objectives.* The avoidance of mistakes and the redirection of strategy requires a historic analysis when predicting *future conflict,* e.g. the dissemination of technology resulting in the take-over or competitive independence of the partner. *Partner rapport* requires Management to manage with a sensitivity to partner relationships and the continuity of the venture. *Technology transfer* similarly requires Management to retain a measure of essential inputs and remain valuable to the venture (Ostroff 1995). *Cultural issues* can be important in maintaining a continuity of relationships. Mistakes in the management of JVs, however, are said to fall into three main categories *poor judgement, human behavioural errors,* and *unanticipated events,* and herein may lay an area of conflict in the apportioning of blame.

Much is made in the literature of the importance of trust and goodwill in avoiding *risk* within a JV relationship (Tsang 1994), and in the same vein Buckley & Casson (1987) suggest that the incentive to abstain from behaving in a self-interested manner i.e. to 'mutually forbear' is that it would be costly to do otherwise, and lead to the *risk* of a mutual hostage situation. Tomlinson (1970) found a high correlation between the motivations underlying the JV and partner complementarities (Madhok 1995), and this suggests that the structural component is necessary but not sufficient in itself, and neither are the social aspects. The two do not substitute for one another, but rather supplement and reinforce one another. Harrigan (1986) asserts that 'managers can be as crafty as they please in writing clauses to protect their firm's technology rights (Ostroff 1995), but the JV's success depends on trust' (Tsang 1994).

A company having transferred technology may have created a future competitor, who would be greatly advantaged with the assets that the Company sought to attach by way of the JV. Seyoum (1996) finds that a competitive advantage created by technology cannot be sustained without adequate protection of intellectual property rights. For example, RCA once transferred its TV technology to several Japanese Companies, this technology was quickly assimilated and now the Japanese dominate

RCA's home market (Hill et al. 1990), and further afield into its traditional overseas markets. In theory the patent system ought to provide adequate protection, but in reality such protection is weak and difficult to enforce (Lieberman & Montgomery 1988, Taylor & Silberston 1973). The risk of such dissemination of technology base is, for example, greatest in the case of licensing, less so in the case of JVs, and least of all in the case of WOSs (Hill et al. 1990).

One study shows that major companies to whom the retention of technology is crucial to their business, avoid the transfer of self supporting technology and loss of control to the point that they would rather pull out than accept a change in status to a minority ownership position. As a result none of the top six US pharmaceutical companies have minority or equal JVs in DCs., and only engage in JVs at all when there is little or no alternative allowed. A Johnson & Johnson executive is quoted as "We know of no advantage, competitive or otherwise of a JV as opposed to a wholly owned subsidiary" (Franko 1987). This position is clearly a response to the risks involved in the loss of self determination and control, in an industry where the start-up burdens are not financial or infrastructural, but knowledge and technology based, the dissemination of which would easily create a competitor. Seyoum (1996) found that the absence of adequate protection for patents in pharmaceuticals in developing countries did not deter investment, although the research also proposes that strong intellectual property protection would have a positive overall effect on fdi.

The transfer of technology and market knowledge reduces the innovation time span, and also disseminates a measure of JV knowledge of developed assets, such as raw material supplies, and the skills developed in the local workforce. These assets are found to be the most important for technology co-operation (Hagedoorn 1993), and are those which could be used by a surviving partner in developing a competitive business, but even if he did not continue in competition, then these assets would be left perhaps to develop into a cottage industry and grow, or to encourage a new entrant to enter the field. In any event, these are risks generated by the existence of a JV. Longfellow-Blodgett (1991) found that the 'possession of technology tends to strengthen an MNC's position over a partner that contributes local knowledge or marketing systems'.

A former partner would also benefit from familiarity with work methods, such that he could model a new competitor business along similar lines. He would also have knowledge of distribution channels and third-market marketing strategies, and all aspects of the former partner's developed marketing mix, thus he would be empowered with such internal knowledge beyond that of an external competitor. The cost base and other information would have been 'learned' over time, and by removing his co-operation, he would have some understanding of the measure of his competitive advantage, which he could augment with knowledge of where the 'skeletons are buried'. The process of organisational learning enlarges the knowledge pool, although the high attrition rates among expatriate managers affects the formative influence of organisational learning (OL). Lyles (1994) identifies 5 areas of the impact of OL which can be affected by such discontinuity. These are all basically *experience intensive* factors involving knowledge of the past, lack of hands-on, specific memories, derived generalisations, and lack of need for creativity and thus being able to decide from what is known. Whilst these characteristics are definitive of OL, they are lost unless they can be retained and developed within a continuous HR base. Oviatt & Phillips McDougal (1994) put a cause and effect perspective on the issue of OL, in having revealed in their study that 'losing opportunities for learning' can be a significant cause of becoming a 'hollow corporation'. Although they claim that the necessity to outsource many knowledge inputs creates a 'natural laboratory' from which to gain further insights.

A contrary view to the inevitable *risk* of failure of JVs is based on the belief of Yoshino & Srinavasa (1995) that they enable firms to focus their investments in a few core competencies, thereby leveraging the competencies of other firms. Although it should be said that these findings are based upon studies into JVs between competitors, and not of classical JV forms, i.e. a foreign partner contributing product and technology and a local partner with market access and perhaps production capabilities, nor is the work based upon a licensing format or a JV with one dominant parent. The claimed 'stability' of alliances of this sort is based upon the principle of 'sharing'. Whilst many researchers have observed the *risk* of dissemination of information and the need to protect technology, Yoshino & Srinavasa (1995) propose that there is a need for openness and to control information to the partner, and claim that some of the *risk* can be overcome by monitoring the flow of information and the partner's contributions.

Often it takes only one multinational player to attach developing country competitive advantage to his products, to force all other players to increase their commitment and follow suit. All competitors are then dependent on the survival of their JV arrangements. If a parent company were able to survive without the JV, then the risks would be minimised, but as the 'sink' of competitive advantage is so large in some developing countries, the risks to the parent are commensurably greater. It is in this case when the risks are so great to the fabric of the parent, in the form of the failure of the joint venture, that companies consider various alternatives, (1) to bear the risk, whilst minimising it by way of critical component supply if possible, or the retention of technology, design, specification, third-market access and management, all of which are means not dependent upon a last resort to local legal protection, (2) market entry by way of a WOS, whilst observing similar protection as above, owing to the reality that some dissemination is inevitable especially if one is acquiring a labour advantage, (3) acquiring similar advantages in more than one location and developing them simultaneously. Generally, we should say that little comfort should be sought from legal protection in support of even the best written contract. The importance of knowledge and technology control is further confirmed by findings which show that the partner which contributes technology is more likely to increase his share of equity, especially when this is related to a local market knowledge contribution from the local partner (Longfellow-Blodgett 1991).

However, whilst such increased commitment increases exit barriers and reduces strategic flexibility, it does give a measure of protection from dissemination risk. Dissemination risk is whereby know-how or other firm specific advantage is acquired by a licensee or JV partner. Caves (1982) suggests that technological and marketing know-how constitutes the majority of competitive advantage of many MNCs. If an MNC allows firm specific know-how to be disseminated to another company, whether by license or through a JV arrangement, then it runs the risk of losing exclusivity to it and creating a competitor (Hill et al 1990, Weijan &

Hamilton 1991, Kogut 1988). The often cited case of RCA's colour television technology and the Japanese' current dominance of RCA's markets is an example of dissemination of technology. The risk of dissemination is lowest in the case of a WOS (Hill et al 1990), but even then there is a risk that a key employee could leave the Company and join a competitor.

Joint Venture failure

It is estimated that between thirty and sixty percent of JVs fail (Franko 1987, Gomes Casseres 1987, Harrigan 1986, Konieczny & Petrick 1994, McKinsey / Coopers & Lybrand 1986, Management International Review 1988), and this leads to suggestions that JVs are, therefore, inherently flawed strategies, which offers support to Michael Porter's (1990) view that alliances are transitional devices that are destined to fail. International JVs tend to have a higher failure rate than domestic JVs, about two-thirds as compared to about a half (Kogut 1988). In reality, however, JVs do not suffer from any greater incidence of failure than do newly registered start-up businesses. The difference is that whilst new businesses are often in unfamiliar territory and exposed to risks, JVs are endowed with the proven advantages of successful parents and ought to succeed.

The majority of IJVs have life spans of less than 5 years, although the success of such JVs should not be judged by the length of their lives alone, the achievement of performance objectives should be the measure of success (Gomes-Casseres 1987). Nevertheless, it is likely that intentionally short term JVs would be in the minority, and that continuity enabling the recovery of investment and maximising income would be the most common intention. Therefore, it is useful to review the incidence of exit from JVs resulting from all causes beyond failure alone. Chowdhury (1992) provides long-period analyses to reveal historic trends of exit rate by entry period and entry mode in Table 2.1, longevity by entry period and entry mode in Table 2.2, and the rate of change by age group in Table 2.3 :-

Table 2.1.

Exit Rate of Manufacturing Subsidiaries : Entry Modes by Entry Periods.

Entry Mode	Exit Rate (%) by Entry Period							
	1951-1960	1956-1965	1961-1970	1966-1975	1961-1975	1956-1975	1951-1975	1971-1975
WOS	22.66	24.03	20.36	23.27	26.55	28.30	29.13	15.24
MAJ	20.80	23.65	18.46	21.83	24.05	25.50	25.72	13.38
CO-OWNED	27.60	32.07	23.19	25.59	27.04	28.01	28.26	15.51
MIN	25.51	26.55	19.47	23.53	25.08	26.11	26.49	15.32
JVs*	24.15	27.05	20.18	23.52	25.28	26.44	26.73	14.66

Notes:
1. Exits include sale, liquidation, confiscation/expropriation. and legal reorganisation (e.g. merger).
2. Exit rate for a given period = (Exits during the period/(Stock at the beginning of the period + Entry or flow during the period) X 100.
3. The beginning stock for the period 1901 - 1950 is zero. The beginning stock for all other periods equals to stock at the end of the immediately preceding period.

* JVs = (MAJ + CO-OWNED + MIN).

Source : Chowdhury (1992/2)

It is clear from the data in Table 2.1 that JVs of all kinds have historically been slightly more stable than WOSs in terms of exit rate. More surprising is the data in Table 2.2 which suggests that IJVs on the whole have at least equal longevity to WOSs.

Further outlined in Table 2.2, is that not all exit is the result of failure of the business in its commercial activities, or failure of the parties in joint venturing. Some changes are the result of a change in status or ownership of the business.

Table 2.2.

Longevity of Departed Subsidiaries :By Entry Modes by Entry Periods.

Mode of Entry	Average Longevity in Years									
	Entry Periods							Exited Cases	Merged/ Reorg.	All Cases
	1951-1960	1956-1965	1961-1970	1966-1975	1961-1975	1956-1975	1951-1975	1975	1975	1975
WOS	8.34	6.35	4.70	3.64	4.41	5.04	5.55	10.01	9.71	9.86
MAJ	10.55	7.36	5.33	3.87	5.13	6.08	6.63	10.34	10.17	10.28
CO-OW.	10.09	7.21	5.48	3.79	5.14	6.07	6.36	7.86	9.58	8.26
MIN	10.97	8.30	5.75	3.81	5.41	6.57	7.04	9.70	10.65	9.84
JVs*	10.56	7.61	5.51	3.82	5.22	6.24	6.68	9.33	10.08	9.51

Notes:

1. Exited cases : Average Life = (Exit Year - Entry Year).
2. Merged cases : Average Life = (Year of Merger - Entry Year).

* JVs = (MAJ + CO-OWNED + MIN).

Source : Chowdhury (1992/2)

This may, of course, be the result of a commercial failure, in which case one party may wish to liquidate its assets and the other may take the business on alone. The cause may be the changing fortunes in the parent's own business, or indeed it may be as a result of a terminal conflict between the parties. Gomes-Casseres (1987) and Stopford & Wells (1972) concluded that companies with successful global systems are more likely to convert JVs into WOSs. Whereas Beamish and Banks (1987), Gomes-Casseres (1987), and Longfellow-Blodgett (1991), found that the partner who contributes technology is more likely to increase his equity stake, and similarly so in a country where ownership restrictions exist. In any event, it is interesting to view the changes over time as presented in Table 2.3. From which we can glean additional data on longevity and the proportional nature of the changes which occur.

This surprising data has come from research work by Chowdhury (1992/2) based upon a sample data of 180 largest US MNCs for the period 1901-1975 drawn from the Harvard MNE project, which provides a large-scale / long-period historical trend analysis of JV characteristics. The motives for various alliances appears to have changed over time, a larger proportion of which are now undertaken for strategic reasons (i.e. competitive), rather than for tactical reasons or in response to environmental conditions.

Table 2.3.

Active Subsidiaries : Rate of Major Change in Ownership Status After Entry by Age Group.

Entry Mode	**Rate of Change (%) by Age Group**			
	1 - 10 years	11 - 20 years	>21 years	Overall
WOS	2.6	7.7	7.3	4.4 1
MAJ	17.9	41.6	48.5	29.5
	(2.6)	(9.2)	(12.1)	(6.1) 2
CO-OWNED	11.3	25.5	32.8	18.1
	(7.3)	(12.6)	(19.7)	(10.2)
MIN	5.4	17.0	24.7	11.2
	(5.4)	(20.4)	(27.2)	(12.4)
JVs	11.6	28.7	36.5	19.9 3

Notes :
1. Percent of WOSs converted to JVs.
2. Figures in parentheses show the rate of change in ownership status from one JV to form another.
3. Percent of JVs converted to WOSs.

Source : Chowdhury (1992/2)

Many modern JVs are becoming third market intensive (i.e. export oriented), or involve an increasing amount of R&D within the JV. It appears from this research that *instability based upon exit rate* of all JVs is lower than for WOSs. 'IJVs also seem to be directly comparable to WOSs in terms of longevity' (Chowdhury 1992/2). Majority owned JVs are found to have the longest life and equally owned JVs the shortest, and this may be indicative of the advantages claimed for equity majority and management control. Many researchers have shown that the instability rate of IJVs is high (Beamish & Wang 1989/1, Killing 1982, Kogut 1988, Porter 1990), however, this very much depends upon the definition of instability used in the analysis. In any event, MNCs' appetites for IJVs and other forms of alliances have increased in the past decade (Christelow 1987). Chowdhury (1992/2) has shown that WOSs are superior to IJVs only in respect to parental control and stability of ownership status, but not necessarily in terms of exit rate and longevity. WOSs are found to be more efficient in terms of some criteria, and IJVs more efficient in others. One author (Longfellow-Blodgett 1993) suggests that changes in the equity and structure of a JV may be a better indicator of instability than a simple count of termination. The size of investment required to form WOSs may make that mode the domain of large MNEs. Smaller companies may well have no entry choice other than IJVs, Kai et al (1994) have found that all alliances involving smaller foreign partners have a higher incidence of failure.

A major cause of conflict occurs when the relative contributions and comparative advantages of the venture partners change continually, whether due to exogenous events or internal dynamics (Hamel 1991, Madhok 1995). Therefore, the source of much conflict can be traced back to the formative choices which the partners make during the evaluation stage. Four dilemmas in the conflict / co-operation relationship are observed as reoccurring in JV management, and these are based upon the choices which must be made between exploiting or investing in finance and know-how, moulding or letting the operation grow, fighting or producing a team-like co-operative effort, selecting its own management or allowing it to develop (Koot 1987). An exemplar of the fifty - fifty equity joint venture is offered to define co-operation as co-ordination through mutual forbearance. Mutual co-operation builds trust and commitment, although the level of compliance to obligations can vary to extremes, between failing to honour minimal obligations (strong cheating) and choosing to honour only minimal obligations ('weak cheating') (Buckley & Casson 1987). Forbearance and the punishing of cheating derives from a reciprocal interdependence which refers to the co-benefit of system inputs and outputs, i.e. the different benefits to each of the partners (Thompson 1967).

Killing (1983) argued that one-parent dominant JVs are more stable and more likely to survive than those having a shared arrangement, although Kogut (1988) disagreed, as did Beamish and Banks (1987) who claim that shared decision-making may actually be better, on the basis that unequal ownerships are available to be renegotiated, whereas equal 50 : 50 situations are least often renegotiated, as the equal bargaining power leads to accommodations between the partners. JVs formed in restrictive economies to tight regulations are very rarely renegotiated, and it follows are more stable, whereas those formed in 'open' economies permit changes in equity and management, and tend to be inherently more unstable (Longfellow-Blodgett 1993, Beamish 1985). A study carried out on the factors of instability (Longfellow-Blodgett (1993), found that a majority JV partner is more likely to take control, and that JVs which have been renegotiated once are likely to be renegotiated again. Uncertainty appears to influence this debate in that JVs in oligopolistic industries have a greater tendency to be stable than JVs in competitive industries (Harrigan 1985, Kogut 1986), and developing countries (Beamish 1985), which have political and economic uncertainties (Blodgett 1992). Whilst it has been found that IJVs are not inferior to other forms of market entry mode in terms of exit rate and longevity (Chowdhury 1992), high levels of failure are said to be inevitable owing to the structural complexity of IJVs (Tallman & Shenkar 1994).

Inevitable tensions in the areas of 'decision-making power, strategic objectives and... operational control' (Young & Hamill et al. 1989), are cited as contributing to failure. Of these the main reasons for failure are said to be 'attempts ....to retain ....control, and disagreements over operating strategies' (Holton 1981). It is notable that these areas of conflict fall within the realms of management control, and it is argued that 'the most successful JVs occur when one partner is prepared to accept a passive role' (Hamel 1991).

Further refinement identifies the JVs' objectives as being the most common cause of conflict, which tends to fall into 9 main areas viz. strategy, management, financial, marketing, production, technology, personnel, R & D, and infrastructural relations (Holton 1981). Although other areas are also identified, the co-value of contributions (which can lead to value disputes during operation), rewards (as related to expectations), and time scale of the venture (as related to progress and termination) (Young & Hamill et al. 1989).

A JV ought be a highly efficient self-organising entity, which may be more complex than either of the parents' businesses in isolation. Such complexity derives from the multiple of inputs from, and the multiple responsibility to, the parents. Although complexity in this sense does not mean that the operation of a JV is more complicated, it denotes that there are more elements to the management of a JV, and that these elements need to be inter-related one to another (Lorange & Probst 1987). Highly complex operations of any kind have more components to fail, and whilst such failure would not necessarily cause dispute in, for example, a WOS, it can result in conflict between the partners in a JV. Given the complexity of a JV, such failures and the resulting disputes may become commonplace ultimately resulting in dissatisfaction, dispute and failure of the JV. The self organising ideal of a JV can be hindered by the measure of complexity involved in a JV, the critical questions are; how complex is the context in which a JV is functioning? how many different strategies is the JV engaged in? and how many organisational cultures is the JV to embrace? (Lorange & Probst 1987).

Such complexity makes the JV very difficult to manage, and this can lead to 'mistakes', which have been described as resulting from a lack of cognitive development, or from errors in the actions taken (Lyles 1987). Mistakes which result in conflict are often based on the application of conflicting practices, or unfamiliarity with local practices, thus the most common mistakes are ones of poor judgement, human behavioural errors, or response to unanticipated events. Table 2.4. identifies areas in which these mostly occur.

Table 2.4.

Nature of Mistakes
1. **Technology:** • Licensing • Pricing • Transfer
2. **Human Resources:** • Career Paths • Turnover
3. **Negotiations:** • Building in Future Conflicts • Ambiguous Terminology
4. **Partner Rapport:** • Maintaining Trust • Partner Choice • Equity Decisions
5. **Goals / Objectives:** • 'Pinched Shoe' Effects • Acquisition of Partner

Source : Lyles (1987).

Note that the above areas of greatest likelihood of mistakes leading to conflict between the partners in a JV, are all major elements of any JV, so any 'mistakes' in these areas are likely to be viewed very seriously by the partners. Some mistakes can be avoided not by a learning process, but by an unlearning process, whereby a partner becomes compliant with acceptable methods and adapts. Although future conflicts can occur even when the partners have avoided mistakes/conflicts, and these can be the result of internal learning. The example is given that a company having acquired its partner's skills over time, believed it could do the job better itself, and this resulted in conflict and failure (Lyles 1987).

A distinction is made between *two types of instability*, one described as *corrective* and the other as *adaptive***.** *Corrective* instability relates to IJV terminations that stem from the joint ownership. *Adaptive* terminations, however, stem from the parents' strategic initiatives. The author posits that IJV activity is a *learning experience intensive activity* and MNCs do often adapt their strategic position, thereby terminating some activities. These he describes as corrective terminations and are the only ones which should be construed as failures. The claim made in (Gomes-Casseres 1987) being that if IJV termination statistics were adjusted to remove *adaptive* IJVs (mortality), then the WOS option does not seem to have any overwhelming advantage over IJV forms. However, the analysis does not take into account that WOSs are also terminated for adaptive and not just performance reasons. For example, the propensity for terminal conflict within JVs depends upon, and contributes greatly to, the level of instability, which can be gleaned from an analysis of changes in ownership structure. Table 2.5 shows the types of changes which have occurred over time to a large sample of subsidiaries.

Table 2.5.

Three Types of Instability in Subsidiaries of US MNEs by Ownership Structure at Entry, 1900 - 1975

	Joint Ventures				Wholly Owned
	MNEs Share of Subsidiary's Equity at Entry				
	<50%	**50%**	**50-95%**	**<95%**	**>95%**
Liquidated	1.8%	1.6%	2.1%	1.9%	2.4%
Sold	13.0%	12.1%	8.3%	11.1%	6.1%
Structure Changed:					
to Whole Ownership	10.1%	16.2%	26.9%	17.6%	-
to Joint Ownership	-	-	-	-	7.2%
Total Instability as %: of all subsidiaries in category	24.9%	29.9%	37.3%	30.6%	15.7%
N =	884	672	822	2378	3555

Note : The data is for subsidiaries set up between 1900 and 1975. The table shows the share of subsidiaries in each ownership category that had been sold or liquidated by 1975, and any changes in ownership structure between date of entry and the date of liquidation or sale, or between date of entry and 1975. Thus, of the 884 joint ventures in which the MNE held less than 50% of the subsidiary's equity at entry, 1.8% were liquidated, 13.0% were sold, and 10.1% became wholly-owned subsidiaries (first column). N denotes the number of subsidiaries that were in each ownership category at entry.
Source : Harvard Multinational Enterprise Project.

Source : Gomes-Casseres (1987).

Some studies into IJV instability have focused on the interrelationship of JVs and the firm's global structure (Gomes-Casseres 1987, Stopford & Wells 1972), and on the JV's structure and its likely performance (Kogut 1988, Killing 1983). In line with the findings outlined in Table 2.1 (Chowdhury 1992) above, the data in Table 2.5. confirms that WOSs were more likely to end in liquidation than JVs, although we find that JVs (30.6%) are on the whole more unstable than are WOSs (15.7%) (Gomes-Casseres 1987), although when measured on the basis of liquidations it was found that failure was as common in WOSs as in JVs (Longfellow-Blodgett 1993). Whilst this suggests that JVs experience a higher rate of change than do WOSs, this does not significantly show that JVs are inherently prone to failure.

A further study into the causes of failure found that structural change and environmental reasons were responsible for a minority of reasons for IJV failure. The majority being in five out of the seven areas identified, which centred around people issues viz.: *partners could not get along, managers could not work together, line management problems, personnel did not deliver, partners reneged on promises* (Harrigan 1985). Whilst it may seem improbable that companies would allow personality problems to disadvantage a major investment, it is clear that this can be a problem even in very large business alliances e.g. the Metal Box / Carnaud merger. However, this example involved parties from developed countries, whereas an examination of IJVs involving partners from developed and developing countries found that failure fell into one of five main categories : (1) government interference, (2) inadequate supporting infrastructure, (3) conflict on unequal benefits and profits, (4) decline in MNE dedication, and (5) difference on IJV objectives and goals (Woodside & Pitts 1996).

Similarly, IJVs involving competitors who have similar core businesses, markets, and proprietary endowments tend to fail because of the tensions created between the partners, and this tends to occur even if the JV is achieving the targets it was set up for. We might, therefore, assume that an IJV set up by two weak companies to pool their resources and create a unit of greater competence is bound to succeed. However, it seems that the alliance tends to sink anyhow because the weaknesses that the JV was set up to overcome actually remain. Even in the case where an IJV is set up with one partner clearly being weaker, and whose intention is to improve its skills, then the JV will still usually fail, because the motive of learning is usually not profitable in itself, and that the learning process is finite anyhow and can lead to independent ambitions in one of the parties (Bleeke & Ernst 1995).

Country and Industry Based Comparative Studies

Whilst the foregoing general review of issues related to IJVs is universally relevant, it is necessary to investigate the variability in IJVs in different circumstances. However, most of the research published in this area suffers from a high degree of case specificity, from which few general concepts can be gleaned. However, some are cited herein which are of a country developmental or entry mode transitional nature such that the patterns observed can be used as indicators of future trends, or as a perspective on developments on the main theme of JVs in China.

Russia is an example having many similarities with the main thrust of this research. The 'door' was opened for foreign JVs to be formed in the former USSR in November 1987, and over 1000 foreign firms had participated by October 1989. The data presented in (Nigh et al 1990) reveals a similar pattern with the development of JVs in China. In that uptake was very slow at first then grew rapidly, only to peak soon after ownership and JV controls were relaxed, although this strategy was only partly effective. Exports were not made a condition of the JV approval process as strenuously as in China, and many foreign companies targeted the service sector and dilapidated local sectors e.g. health, computers, entertainment. The main difference between the Chinese and Russian positions is that whereas the Chinese have stringently controlled foreign JV entry on the basis of sectoral and foreign exchange balancing terms, and thus acquired industrial development investment from overseas and locally improved domestic industries in other sectors. The Russians, who similarly control foreign exchange balances, have relaxed much of the other criteria to welcome allcomers in the belief that all development is beneficial. The indicators from this comparison are that the level of development should dictate the type of foreign participation, and also the incentives which should be offered. On balance it is clear that the Chinese have addressed these issues better than the Russians.

Lichtenberger & Naulleau (1993) make some very interesting points by taking 2 countries, France and Germany, which are comparatively close in cultural, geo-political, and trading terms, and analyse the cultural and synergistic JV interplay between them. The commonality between these countries is shown to do little to improve the likelihood of JV success as Bleeke & Ernst (1995) found that 67% of alliances ran into serious trouble in their first two years. Much of the responsibility for which is laid at the door of Human Resources (HR) management (Shenkar & Zeira 1992), and at organisational learning (Kogut 1988). The suggestion here is that cultural similarity may not be the answer to easier JV relationships, and that perhaps the cultural distance between the West and, for example, 'distant' China may not be the problem.

A further important point is made by Lichtenberger and Naulleau (1993) in that whilst studies have shown 15 different categories of strategic contributions desired by partners when forming an IJV (Geringer 1991), two of them, *know-how* and *local environment and marketing knowledge*, create the greatest instability (Longfellow-Blodgett 1991). Although this rather depends on the respective erstwhile positions of the parties. Dussauge & Garrette (1995) link the success of co-operative projects implemented by competing partner firms in the global aerospace industry, to the way in which collaboration is organised and managed. The complex task of defining and measuring the performance of alliances was based upon JV duration and survival (Harrigan 1988a), from which results confirmed that it is unreasonable to assume that a more structured organisation leads to increased performance.

6. Summary

This Chapter has reviewed the extensive literature on International Joint Ventures (IJVs) and identified the changing patterns of fdi, the reported reasons for the change in emphasis in some traditional host / home relationships, and the growth in developed / developing country combinations. Two main concepts are identified in research into IJVs i.e. the *integrative and comparative entry mode* perspective and the *structural, managerial and control* perspective, and these have been discussed in detail along with *bargaining power models*, which have dominated this area of research. These have been related to partner contributions, JV structure through to conflict and JV failure, and have been shown to have an influence on partner selection which has been found to be a critical success factor.

The advantages to be derived from JVs have been reviewed along the lines that it is an enabling strategy often providing competitive advantage, with the sharing of risks and costs, although there are some implicit disadvantages which have been reviewed in detail. This discussion is naturally developed into a detailed review of the published research into JV strategies, including a review of *JV efficiency* i.e. the synergistic effect, the comparison with other entry modes in terms of costs and performance. Similarly, the widely reported issues of *management and control* have been reviewed along the lines of the subject literature including a discussion on dual hierarchies, opportunism, proprietary knowledge and technology, management quality, unambiguous control, and equity proportions. *Risk* and *JV failure* have been reviewed in detail also along the lines of the literature, and this Chapter has highlighted the main issues as being the relationship between risk and conflict, the uncertainty of an unfamiliar environment, 'mistakes', risk avoidance, the protection of intellectual property, and conflict between the partners. The high level of attrition in JVs is reviewed in line with long-period studies which reveal that JV failure is not new, neither has there been a marked change in longevity. The literature also reveals that the early reports of the causes of failure are not unlike more contemporary findings, which suggests that the indications of the causes of failure are reliable.

A review of *country and industry comparative studies* has also been included in an effort to identify areas of case specificity. However, only a few minor unique circumstances have been identified. Therefore, the findings of this Chapter, which are based on a very large body of literature, are indicative of IJVs in general and provide a basis for the more focused research into equity joint ventures in the P.R. China, which are covered by the next two chapters, Chapter Three which concentrates on the legislative, economic, commercial, management, and marketing environment of JVs in China, and Chapter Four which reviews the extensive literature on JVs in China.

Chapter Three

Equity Joint Ventures in The P.R. China

Joint Ventures of various kinds have been the entry mode of choice for both foreign and local partners, and the Authorities in China since the 'open door' policy of 1979. The advantages to participants being derived from the expected synergistic effects resulting from the complementarity of their respective inputs, i.e. low production costs, familiarity with and access to the local market and infrastructure, on the one hand, and technology, products, know-how, management and investment, on the other. This complementarity of exchange of inputs has been promoted by the Chinese government, whose overall motive in offering inducements has been the economic and industrial development of China. This chapter provides an environmental perspective to the establishment and operation of JVs in China including the *sectoral* and *environmental characteristics of equity JVs in China*, and *partner selection* and *legal framework*, all of which can have an important influence on JVs. Foreign partners very often take on responsibility for *management operations*, within which *host guest strategic* postures play an important part given the reported levels of conflict and resulting complex *settlement of disputes*. Such conflict often results from *achievement and technology transfer pressures* which can lead to the *termination* of a JV. *The liberalisation of the market* has led to the regulations governing the approval and operation of JVs being relaxed to encourage further investment into wider sectors and regions. The next chapter focuses on the findings of other researchers in the published literature.

Background

China's economy was largely closed off to outside influence between 1949, when the Communist Party came to power, and the 'open door' policy of 1979. The liberalisation of the economy and development to world standards by the year 2000, were first mooted in 1974, and culminated in the 'Four Modernisations' plan announced at *'The Third Plenary Session of the Eleventh Central Committee of the Chinese Communist Party'* in December 1978. The cost of such development was widely recognised in China as being beyond the country's ability to finance, and the technological shortfall which was reckoned to be between 10 and 30 years behind developed countries (Woodward & Liu 1993), was perceived to be too great to assimilate independently. Foreign direct investment (fdi) was the logical strategy by which to acquire both first world investment and technology, and fdi was encouraged by way of the 'open door' policy of 1979.

The *'Law on Joint Ventures Using Chinese and Foreign Investment'* enacted at the *Second Session of the Fifth National People's Congress* of July 1979 provided the initial framework for the 'open door' policy, and this was followed in 1983 by *'The Regulations for the Implementation of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment'*, which was an experience based fine-tuning of the regulations. The *'Regulations Concerning Encouragement of Foreign Investment'* of October 1986, was an incentives based enactment which extended preferential treatment, as well as operational freedom and management control to foreign JV partners and investors, and this was further improved in April 1990 with the *'Amendment to the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment'. The Foreign Trade Law* of 1994 formalised many of the compliance demands of the WTO, and the sectoral constraints on JVs were relaxed in the area of trading by the *'Provisional Measures on the Establishment of Sino-Foreign Joint Venture Trading Companies on a Pilot Basis'* in 1996.

As the world's largest developing country and fastest growing economy, China hosts the second largest amount of fdi, (half of all in the developing world), and exceeded in total only by the United States, making it the primary destination for fdi of all developing countries. 175,000 fdi projects had been approved since the 'open door' policy of 1979, with a total contracted foreign commitment of US$ 224 billion, by the end of 1993 (UNCTAD 1994), (220,000 fdi projects with a contracted investment of US$ 300 billion of which US$ 95 billion had been utilised by the end of 1994) (Kaiser et al 1996). Of these, 67,000 operational foreign affiliates contributed US$ 6.56 billion in tax in 1993, and accounted for 28% (US$ 25 billion) of the total Chinese export activity, whilst employing some 6 million people (or about 10 million (People's Daily 27/3/1994)), being about 4% of the total urban workforce (Van Den Bulcke & Zhang 1996). The amount of fdi utilised has increased annually reaching US$ 45 billion in 1997, as has the international activity of IJVs with the import and export of foreign funded enterprises having increased by 11.3% in 1997 over 1996. Fdi is projected to continue to increase with an expected total by the year 2000 of between US$ 230 and US$ 270 billions (USEIA 1997).

The 'open door' policy of 1979 was just the first step in the liberalisation of the Chinese economy, which has been a gradual and incremental process of sectoral and regional expansion and amendment. Characterised by the apportionment of resources and market access, the development of a commercial law, transfer to the Provinces of some local economic management, and the relaxation of ownership controls (Van Den Bulcke & Zhang 1996). The Chinese government has charted a fine line between offering incentives to attract fdi and the retention of control of economic 'pillars'. Whilst at the same time allowing economic development to take place on a sectoral (protectionist), and geographic (i.e. concentrated and export oriented) basis.

The early foundations of the liberalisation were based upon low labour costs, to attract export processing activities from Hong Kong Companies into neighbouring Guangdong Province. As the resulting competitive advantages were taken to market by Hong Kong Companies, their competitors in other Asian countries, such as Taiwan, Japan, Singapore, Korea and others, also sought to acquire the same benefits, as did competitors from 'client' markets in the US and Europe. Four Special Economic Zones (SEZs) in two coastal provinces were established in 1980, strategically located on the basis of proximity to their clients, and low labour costs. The success of the SEZs led to the expansion of similar benefits of tax and tariff incentives in 14 coastal cities in 1984, and to further expansion in 1985 to the Three River Deltas. The existence of local factor endowments resulted in local initiatives, by Provincial governments, in the development of special investment and technological development zones. Such that these proliferated in a random and uncoordinated way i.e. increasing from 117 in 1991 to about 10,000 in 1992.

(Harrold & Lall 1993). Until the Central Government attempted to restrict this explosive growth in 1993, succeeding only to impose a measure of co-ordination.

Table 3.1.

Chronological overview of China's decisions and policies related to fdi and responses of MNEs (1979 - 1996).

Period	Government decisions and policies	Main influences and their effects on fdi and established companies and the responses of MNEs.
1979 - 82	◆Abolishment of fdi prohibition by the introduction of Joint Venture Law, Civil Procedure Law, Joint Venture Income Tax Law, etc. ◆Establishment of 4 Special Economic Zones (SEZs). Fiscal autonomy to local governments. ◆Incentives and regulatory measures of fdi dominated by the bureaucratic control mechanism. ◆Price liberalisation of industrial products starts. Patent Law and Trademark Law enacted.	◆Low cost labour seeking investment with export processing activities. ◆Limited integration with domestic market (location mainly in SEZs). ◆Limited resources and management commitment. ◆Preference for contractual JVs and short term projects. ◆'Testing' investment by western firms (strategic positioning).
1983 - 85	◆Improvement of industrial infrastructure and better access to domestic market by opening up of 14 coastal cities. ◆Integration of local labour intensive industries into export processing operations by opening up of 3 River Deltas. ◆Introduction of reform measures in urban areas (fiscal, banking, pricing, local economic management, enterprise management). Director responsibility system and plan and production autonomy introduced. ◆Township and Village enterprises created. ◆Setting up of preliminary legal infrastructure for market transactions (Contract Law and Patent Law).	◆Growth ofmarket seeking investment ◆Introduction of human resource intensive technology. ◆More linkages with local market as result of local sourcing of export processing manufacture involvement of local partners for acquiring local market knowledge in establishing EJVs ◆Bank lending to SOEs begins to replace allocations from budget. PBOC assumes some of the functions of a central bank. ◆SOEs begin to be taxed instead of turning over profits, as a preliminary to greater independence.

1986 - 88	◆New regulatory measures (22 regulations) with additional incentives for priority fdi projects (export, import substitution and high tech.) ◆Introduction of performance requirements (export share, product specifics and technological level). ◆Marketization' of resource allocation (foreign exchange-SWAP markets, raw materials, labour). ◆Labour contract replaces virtual lifetime employment for new recruits. ◆Increasing liberalisation of market resources (supply and distribution network). ◆SOE contract responsibility system begins for employees and manager's contracts. ◆Regulations on private enterprises published. Enterprise and Bankruptcy Laws passed.	◆Increased bargaining power of Western MNEs based on relatively high level of technology and new products. ◆Increase of large scale export processing manufacturing industries. ◆Decrease of short term fdi projects (in service sectors).
1989 - 91	◆Political crisis (aftermath of Tiananmen) and introduction of a 'rectification programme' to control the economic overheating and inflation. ◆Neither restrictive nor significant incentive measures for fdi in the updated EJV Law in 1990. ◆Specific administrative arrangements for foreign investors to improve investment climate. ◆Increasing support from bureaucracy for local market orientated enterprises ('isolated' market). ◆Regulations on mergers, joint stock companies and the commercialisation of banks. ◆Copyright Law enacted.	◆Reduction of confidence of foreign (especially Western) investors. ◆Increase of fdi from Asian MNEs with similar social and cultural background and more risk taking. behaviour. ◆Building-up of *insider* market position by early entered MNEs in an *isolated* market situation. ◆Further delegation to SOEs places greater responsibility upon them.
1992 - 95	◆Opening of inland cities for fdi and introduction of new ownership forms (e.g. umbrella companies and 'B' share trade). ◆Liberalisation of service sectors to foreign investors.	◆Increase of efficiency seeking MNEs by using large scale production and process technology and/or creation of own marketing and sourcing subsidiaries ◆Increase of fdi in infrastructure and business related service sectors.

1992-95 (continued)	◆Introduction of micro-level control measures for fdi operations (e.g. transfer pricing, evaluation of non equity contribution for inward fdi and control of state owned assets of Chinese overseas subsidiaries for outward fdi). ◆Attempts to eliminate unfair competition and improvement of company-level regulations. ◆Towards international standards and national treatment of fdi with upgrading of legal infrastructure (taxation, foreign exchange, Company Law). ◆Additional rights over property / asset disposal given to SOEs. ◆Phasing out of production targets and price controls. Patent Law and Trademark Law revised. Competition Law and Accounting Laws introduced. Banking and financial sector laws passed.	◆Diversification into related/ unrelated business lines by Asian MNEs as response to booming market situation. ◆Increase of transfer of organisational capabilities by Western MNEs as result of the internationalisation of local business conditions
1996 -	◆1000 SOEs transformed into autonomous corporations.	◆Smaller enterprises encouraged to merge. ◆Experimentation with different forms of ownership, including mergers, closures, privatisations.
Adapted from Van Den Bulcke & Zhang (1996), updated and expanded by the incorporation of data from EIU Country Profile (1997).		

The expansion of incentives to attract fdi into the far reaches of China, began in 1988 with the creation of the Hainan Island SEZ (which had previously been part of Guangdong Province), and with the redevelopment of the Pudong industrial suburb of Shanghai in 1992, into a modern industrial area with river access to the hinterland of China, and port access for exports. The growing number of JVs with countries other than those neighbouring China, coupled with the growing cost differentials between the coastal and SEZ areas, compared to those available in the hinterland of China, when coupled with the improvements in road, rail and river transportation, brought about the development of foreign participated JVs in 18 inland provincial-capital cities, 5 cities along the Yangtze river, and 13 border cities.

The economic development of the hinterland of China was hampered by infrastructural factors such as the inadequacy of power supplies, inadequacy of raw materials, the prevalence of obsolete manufacturing technologies, and poor communications and transport infrastructure (Luo & Chen 1996). As a result the opening up of inland China to fdi is relatively recent, and the distribution of foreign participated businesses reflects the progression. The proportion of total contracted fdi received by the hinterland regions of China increased from 1% in 1983 to 10% in 1992, whilst the earlier opened provinces held over 92% of total inward fdi at the end of 1992, contributing over 60% of China's GDP (Van Den Bulcke & Zhang 1996). Fdi into the areas of Hainan, Guangdong and Beijing started to decline dramatically in 1992, with the opening up of new areas. Phillips (1985) suggests that these 'open areas' offered better opportunities than the SEZs, attracting 82.3% of all contracted fdi in 1992 (Kaiser et all 1996). The proportion of investment in China's hinterland increased by 60.9% to an overall contracted inward investment share of 17.7%. There continues to be a growing trend towards development in the hinterland regions, along the same lines as the original motives i.e. based upon low labour costs, and later developing in search of other location specific advantages, and access to the growing local market (Fan 1994).

Four major changes in the economic environment have been noted as having contributed to the transformation of the industrial structure of China. These have been the growth of market transactions away from SOEs thereby forcing them to compete, the growing internationalisation of businesses which has impacted on the management and organisation of Chinese enterprises; the 'commercialisation' of both the state enterprises and the banking and capital sectors, which has liberated enterprises from government; and the rapid growth of the economy, which has lowered the risks of failure and encouraged new enterprises (Hussain & Zhuang 1997).

1991 was the first year of major increase in fdi activity with the number of projects and their contracted value almost doubling from that of the previous year. 1992 was even more prolific with the number of projects almost quadrupling, and the contracted value more than quadrupling that of the previous year. 1993 saw tremendous activity with over 90% as many projects, and a greater contracted value than the cumulative of all the previous years since the 'open door' of 1979. 1994, however, saw a reduction in the number of projects, and in the amount of contracted value, although the amount of investment utilised was almost double that of the previous year. The lack of any relationship between the number of projects and their contracted amount, and the utilised amount, can be explained by projects vary in contracted value, not all projects come to fruition, and there is an average of about 2½ years from contract to completion. All the data for utilised value in Table 3.2 must be viewed in relation to the project number and value data of the immediately previous three years, to reveal a trend in the utilisation of contracted value.

Table 3.2

Utilisation of Foreign Direct Investment in China - 1979 to 1996

Year millions	(US$ millions)	Cumulative US$
1979-83	1,802	1,802
1984	1,258	3,060
1985	1,661	4,721
1986	1,874	6,595
1987	2,314	8,909
1988	3,194	12,103
1989	3,392	15,495
1990	3,487	18,982
1991	4,366	23,348
1992	11,007	34,355
1993	27,515	61,870
1994	33,767	95,637
1995	37,521	133,158
1996	41,726	174,884

Source : State Statistical Bureau - Beijing, China Statistical Yearbook, EIU Country Profile (1997)

Wholly foreign owned enterprises (WFOEs) were approved only in 1986, prior to which EJVs were the only means of foreign equity participation in China. Whilst WFOEs have increased from 18 in 1986 to 2,795 in 1991, (6,081 in 1991 according to MOFERT (1991). EJVs continue to be the strategy of choice. 63.3% of the 220,000 fdi projects approved by the end of 1994 were EJVs (an increase from 54% in 1991 (Ding 1993), 15.6% were CJVs, and 21.1% were WFOEs. (MOFTEC 1995).

Table 3.3

The Main Forms of fdi in China
1979 to 1994 (Cumulative)

	Number of Projects	
Forms of fdi in China	No.*	(%)
Equity Joint Venture (EJV)	139,260	63.3
Contractual Joint Venture (CJV)	34,320	15.6
Wholly Foreign Owned Enterprise (WFOE)	46,420	21.1**
TOTAL fdi	220,000	100

**Note* : Since the total number of fdi projects by the end of 1994 exceeds 220,000, the individual data represents rather underestimated figures.
***Note* : This option has only been available since 1986.

Source: Ministry of Foreign Trade and Economic Co-operation, MOFTEC, Beijing, August 1995.
Derived from Kaiser et al. (1996).

Foreign participated companies accounted for over 8% of industrial output during the decade 1984 to 1994 (Thorburn et al. 1990, The Economist 12/11/1994), (11% in 1994) (People's Daily 27/3/1994), in a period when the economy was experiencing double digit growth rates. (Thorburn et al. 1990, The Economist 12/11/1994). China's foreign exchange earnings from these companies grew from 25% in 1993 to about one third in 1994 (Beijing Review 1993), whilst China's share of international trade grew by an average of 15% (17% according to Xuan & Graf 1996), annually since the 'open door', almost doubling between 1978 and 1990. (Wei 1993), making it one of the top ten trading nations in the world by the end of 1994 (The Economist 18/3/1995). Although China was not in the top ten exporters in 1994, even though its trade amounted to 40% of its GDP (Ritchie 1997). The export activity of foreign funded firms increased by 45% in 1994 over the same period in 1993, and in 1994 a US$ 5.3 billion surplus (Kaiser 1995) replaced the US$ 12.2 billion deficit of 1993 (Walker 1994). The international business activities of foreign funded enterprises has continued to increase through the 1990s with an 11.8% increase in 1997 over 1996 (China Today 1998).

Whilst the more than 220,000 fdi projects established in China by the end of 1994, have contributed greatly to the modernisation of China's industries and contributed greatly to China's economic development, only 43.4% of the total capital inflows to China in the period from the 'open door' have come from fdi, 24% of which was in the form of portfolio investments (The Economist 12/11/1994). The largest part has come from international financial institutions and foreign governments by way of soft loans, and aid programs. It is estimated that a further US$ 1 trillion of investment is required between the mid 1990s and the turn of the century to modernise the Chinese economy (Research on Economics and Management 1993), in line with the ambitions of the 'four modernisations'.

Table 3.4

Foreign Direct Investment Flows to China by Origin - 1985 - 1996

Country	Total (US$ millions)	% Share
Hong Kong & Macau	102,000	58.0
Taiwan	14,703	8.4
Japan	14,082	8.0
U.S.A.	13,885	7.9
South Korea	4,334	2.5
U.K.	3,419	1.9
France	1,265	0.7
Italy	963	0.5
Total incl. Others	**175,733**	**100.0**

Source : State Statistical Bureau - Beijing, China Statistical Yearbook, EIU Country Profile (1997)

1. Characteristics of Equity Joint Ventures in China

(a) Sectoral.

Along with the expansion of the 'regional development strategy' and the 'internal development path' came the extension of the incentives (as offered to foreign investors in the SEZs), to encourage investment in the inland regions. The status of ownership was also reformed to encourage participation in a private sector initially on the basis of Town and Village Enterprises (TVEs), and also in the State Owned Enterprises (SOEs). Over 15,000 TVEs had formed JVs with foreign partners by the end of 1992, accounting for 18% of all fdi (China Statistical Bureau 1993). Various forms of EJVs, CJVs, WFOEs, PSCs, and share trading, were extended from the SEZs into the hinterland, thus spreading industrial activity throughout the country, and extending participation within a growing private sector.

Table 3.5

Chinese Industrial Structure 1978 - 1995

Year	State-Owned Enterprises	Township and Village-run Enterprises	Urban Collectively-owned Enterprises and Others
1978	77.6	9.1	13.3
1979	78.5	n.a.	n.a.
1980	76.0	9.9	14.1
1981	74.8	n.a.	n.a.
1982	74.4	n.a.	n.a.
1983	73.4	n.a.	n.a.
1984	69.1	16.3	14.6
1985	64.9	18.8	16.3
1986	62.3	21.6	16.1
1987	59.7	23.5	16.8
1988	56.8	24.9	18.3
1989	56.1	23.8	20.1
1990	54.6	25.3	20.1
1991	56.2	30.8	13.0
1992	51.5	36.8	11.7
1993	47.0	44.5	8.5
1994	37.3	42.0	20.7
1995	34.0	55.8	10.2

Notes : The data for the Township and Village-run Enterprises include all rural enterprises, whether collectively-owned, privately-owned, or self-employed. The data for Urban Collectively-owned enterprises and others covers all non-state industrial enterprises in urban areas.
All figures are expressed as percentages of total industrial output.

Sources : *China Industrial Statistics Yearbook* 1988 p.7, 1989 p.3, 1993 pp. 7, 23 and 26, *China Statistical Yearbook* 1981 p.192, 1984 p.183, 1985 p.297, 1986 pp 255-65, 1993 p.414, 1995 pp.19, 25 and 401-3, 1996 pp. 389 and 403

Source : Hussain & Zhuang (1997)

Early foreign participated JV activity was mainly in the service sector by way of CJVs, with fdi in the manufacturing sector amounting to only 14% in 1983. The resulting economic imbalance was being gradually redressed as fdi in manufacturing increased in the 1984/85 period to 33%, and the trend was further developed by the enactment of the 'Provisions for the Encouragement of Foreign Investment'. Foreign investors are considered to be 'the motors of the economy's modernisation' (Xuan & Graf 1996), and The '22 Regulations' were successful in further stimulating fdi in technology intensive, import substituting, and export orientated industries (Van Den Bulcke & Zhang 1996). A selective approach was instituted insofar as approvals were contained within economically beneficial parameters. Fdi in manufacturing continued to increase to 56% in 1986/88, and to 82% in the period 1989/91, and has increased further overall in the utilisation of fdi, after the readmission of the service sector e.g. advertising, accounting, finance, banking, and legal, since 1992. Whilst the utilised value of fdi has continued to increase, the contracted value of fdi began to slow in 1996 by 20%, and by 50% in the first half of 1997 following the reduction of tariff concessions on the import of capital goods by foreign invested enterprises (FIEs) in April 1996 (EIU Country Profile 1997/98). This policy was instituted by the Chinese government in an effort to equalise competitiveness between local enterprises and foreign enterprises, and it remains to be seen what effect this will have had on future utilised fdi flows.

The selective priorities were further delineated in a 'positive list' in 1995, which targeted economically beneficial projects involving the transfer of high technology, and the development of basic industries, e.g. power plants, transportation, ports, machinery, electronics, metals, and chemicals. These priority sectors continue to receive tax relief and access to soft loans, (Murray 1995) although there remains no requirement to 'localise' R&D activities in China. Access to infrastructural markets such as transportation, and telecommunications continues to exclude foreign firms (Van Den Bulcke & Zhang 1996).

Table 3.6

Sectoral Analysis of fdi in China to 1994

Sector	Projects No.	(%)
Industry	163,020	74.1
Real Estate and Services	31,460	14.3
Agriculture	5,500	2.5
Infrastructure	20,020	9.1
TOTAL	220,000	100

Source: Ministry of Foreign Trade and Economic Co-operation, MOFTEC Beijing, August 1995.

Whilst it is clear from Table 3.6 that almost 75% of all fdi to China went into the 'Industry' sector, there is cross-over effect between these broad categories, and it is necessary to view this in greater detail. The percentage of Capital and Technology intensive projects has increased to about 35%, with a growing concentration in the areas of telecommunications, transportation and electric power projects (People's Daily 10/1/1994). Table 3.7 breaks the data down further as well as displaying the destination location and the source of such investment.

The data related to destination of fdi given in Table 3.7 shows that the areas opened up to fdi earlier have naturally accumulated the greatest investment over time, e.g. Guangdong, Jiangsu, Shandong and Fujian. The breakdown of industry type similarly shows that the early entrant labour intensive / low cost production industries, such as light industry, electronics, and textiles have accumulated large numbers of participants. As sectoral restrictions have been relaxed, so business in new areas has proliferated, for example, the number of foreign retailers participating, or planning to, has grown fourfold since the sector was 'opened-up' to foreign investment, and in the relatively short period between 1990 and 1994 (Davies 1994).

Table 3.7.

The Top Ten Foreign Sources, Top Ten Industries, and Top Ten Locations of fdi Through JVs, WFOE, and CJVs in China by the End of 1993.

	Location			Industry			Source*		
Rank	Province	# of Ventures	% of all	Industry	# of Ventures	% of all	Source	# of Ventures	%of all
1	Guangdong	44705	26.69	Light Industry	41099	24.53	Hong Kong	106914	63.83
2	Jiangsu	18082	10.80	Electronics	24622	14.70	Taiwan	20612	12.31
3	Shandong	12561	7.50	Textiles	15410	9.20	U.S.A.	11554	6.90
4	Fujian	11990	7.16	Chemicals/Medical	13249	7.91	Japan	7096	4.24
5	Zhejiang	8095	4.83	Heavy Machinery	12321	7.35	Macao	4118	2.46
6	Shanghai	8056	4.81	Food	10217	6.10	Singapore	3037	1.81
7	Hainan	7390	4.41	Building Materials	8408	5.02	R.O.Korea	2321	1.39
8	Liaoning	7365	4.40	Transportation	8207	4.90	Canada	1495	0.89
9	Beijing	6516	3.89	Services	6314	3.77	Thailand	1361	0.81
10	Tianjin	6004	3.58	Agriculture	5912	3.53	Australia	1269	0.76
	Total of Ten	130754	78.06		145748	87.01		159777	95.39
	All of China	167500	100		167500	100		167500	100

In terms of capital contribution. the top ten sources are :- 1, Hong Kong & Macao, 2. Taiwan, 3. United States. 4. Japan, 5. Singapore. 6. Great Britain. 7. Thailand. 8. Canada. 9. Germany. 10. Australia.

Source:- Foreign Economic and Trade Almanac of the Ministry of Foreign Trade and Economic Co-operation, (MOFTEC), P.R.China 1993.

Sources : Inkpen (1996), Luo & Min Chen (1996)

The analysis of participants by source produces few surprises inasmuch as it is understandable that Hong Kong leads the list, although it must be viewed from two perspectives, firstly that many Hong Kong investors had internationalised their businesses and invested in China as a lay-off of risk with the Chinese take-over coming soon, and secondly that much of Hong Kong investment in China is by way of Hong Kong's status as an investment entrepot. Macao's investments have very similar motives, whilst Taiwan's, Japan's, the USA's, Korea's and Singapore's interests are clear as their economies have developed beyond the cost competitiveness of domestic production, and they seek appropriate country specific advantages. The surprise is Thailand with 1361 ventures in 1993 (Inkpen 1996), because it has similar production advantages domestically, and much of its involvement in China is founded upon its supply and processing of raw materials, particularly timber.

(b) Environmental

Article 1 of the Provisions of the State Council *(Provisions of the State Council of the People's Republic of China for the Encouragement of Foreign Investment - promulgated 11 10 1986),* is unequivocal in establishing the reasons for encouraging foreign investment into China, *'to improve the investment environment, facilitate the absorption of foreign investment, introduce advanced technology, improve product quality, expand exports in order to generate foreign exchange and develop the national economy'.* There is no legal requirement under the JV regulations for JV products to be exported. However, a JV would usually export its products to obtain foreign currency and balance its foreign exchange requirement (Lewis et al 1995), or do so by maintaining a satisfactory current account balance. The 'special preferences' i.e. inducements offered by way of this legislation accrue to two categories of foreign participant in China :

- Enterprises which produce mainly for export, and which generate foreign exchange surpluses.

- Enterprises which bring advanced technology to China and improve products, such that they are more competitive and increase foreign exchange earnings, or which locally produce products previously imported, thereby having an import substitution, and resulting saving in foreign exchange expenditure.

Such enterprises can benefit from :

- exemption of payment to the State of staff subsidies (similar to Social Security tax).
- reduced site fees (similar to rent and local authority rates in the UK).
- priority in obtaining service from utilities and transport.
- priority in obtaining funding from the People's Bank of China, by way of loans for short term circulating capital, not for establishment capital.
- exemption from income tax for foreign investor profit remittances.
- after expiry of reduction/exemption period of income tax, a 50% reduction is made thereafter provided exports amount to 70% of the value of production.
- enterprises in the SEZs and the ETDZs which comply with the above have reduced enterprise income tax from 15% to 10%.
- after expiry of the period of reduction and exemption, technologically advanced enterprises may extend the period by a further 3 years.

- profits reinvested for a further 5 years, shall have all previous tax paid on that amount refunded.
- exported products are exempted from consolidated industrial and commercial taxes.
- an inability to make a surplus in foreign exchange in any one year, shall result in the benefits obtained being made up in the following year.

If an enterprise is unable to maintain desirability in terms of being a 'technologically advanced enterprise' then it will not be able to extend the benefits of reduced taxation and other inducements outlined above. Similarly, if an enterprise is unable to meet its foreign exchange surplus target in any one year, then the benefits it has gained during that year would have to be made up in the following year.

Business activities specifically forbidden (under the Regulations of 20/9/1983 see above) are those :-

1. to the detriment of China's sovereignty.
2. in violation of Chinese law.
3. in non-conformity with the requirements of the development of China's national economy.
4. causing environmental pollution.
5. with obvious inequity in the agreements, contracts and Articles of Association signed, impairing the rights and interests of one party.

Whilst the intention in the above is to ensure that JVs registered are those which fit in with the economic development plan, it is of concern to prospective foreign partners that 1,3 and 5 above are clearly a matter of opinion and open to interpretation, and this probably also applies to 2 and 4, to some measure. (A detailed list was issued by the authorities March 1998).

Whilst in theory JVs in China could be for an indefinite period *(Article 2 of the Provisional Regulations for the Duration of Sino-foreign Joint Venture Enterprises* - (Lewis 1995), The 1990 revision to the JV Law Article 12 states that some JVs can be for an indefinite period although it does not identify which ones (Kan 1996), in practice most JVs in China are finite, inasmuch as they are for a fixed period, usually between 15 and 30 years, and this is agreed at the time of the original agreement between the parties and approved by the authorities, although the parties may agree to include a provision for the extension of the term, with all disputes being settled by an agreed method of arbitration.

(c) Partner Selection.

Partner selection in China is often based upon a wide variety of business environmental, location, and politico-economic features, beyond the inherent attributes of the partner. The size of China, both geographically and in terms of population size, distribution and patronage within, and competitiveness between, the provinces has much to do with the reality that what was intended as a JV business to serve the whole of China, usually turns out to be a regional, provincial or even a city intensive business. Certainly it is true that few, if any, foreign participated JV businesses in China are of a size indicative of their intention to serve one-fifth of the World's population. Indeed most IJVs in China are small businesses by many MNE standards, and derive their cost competitiveness not by scale economies resulting from the size of the local market, but from low labour costs. This situation results in two areas of concern, firstly that industrial products producer price inflation in China which was at an annual average rate of 10.5% between 1992 and 1996 (EIU Country Profile 1997/98), is eroding this advantage, and secondly whether the residual scale economic effect is sufficient for competitiveness in export markets, to enable JVs to maintain current account balances and thus meet their foreign exchange commitments.

These concerns are set against the fact that many JV establishment approvals require a measure of exports and resulting foreign exchange income, which can only be achieved for as long as the JV's products are competitive overseas, and secondly that most JVs are established for a finite period, and questions whether there will be any location specific advantage left at the end of that period. The solution to which requires a strategy which addresses the greater China market although, depending upon the industry involved, regionalism may frustrate nation-wide market access and require a multi-local strategy. This strategy, however, tends to increase small unit numbers, especially in single product companies, and fails to produce all of the scale economies which the market size suggests are possible, and which a commitment to exports and foreign exchange balancing requires. Multi-location strategies, however, are found to be economically viable in China in multi-product companies such as in the *Gamma* case study hereto, which has numerous JVs in different locations, each producing different products, and attaching their local access advantages to one another. 'For multinationals already operating in China, the imperative is to expand beyond the 3 to 5 city entry level' (Yan 1994). Creating multiple ventures is a way of dealing with the fragmented, sub-scale, and extremely locally-oriented nature of most of the Chinese economy (Shaw & Meier 1993).

Partner and location selection should result from market research rather than to be selected from candidates proposed by the authorities. Most potential partners in China are likely to have some measure of state ownership or state control (Pan & Parker 1997). If the company is proposed by the authorities, then it is likely to be a candidate for modernisation, in which case it may be technically outdated, with little suitable production facilities to offer, other than perhaps land, labour and infrastructural connections (Speece & Kawahara 1995). Lewis et al (1995) describe many such companies as 'bankruptcy-bait', an example of which is that the percentage of SOEs running at a loss has increased from 26.4% in 1992, to 44% in 1995 (World Bank 1996). Losses in SOEs increased by 8.2% in 1997, resulting in 675 SOEs being declared bankrupt and closed down, and a further 1022 other state enterprises were merged in 1997 (China State Statistical Bureau 1998). As such the potential partner may be burdened with debt, and unable to rehabilitate itself in any other way than by joint venturing with a foreign partner, especially as state subsidies are being gradually withdrawn, and SOEs are having to resort to the banks, which are themselves having to make commercial decisions. Fdi accounts for about 8% of the state sector, and about 11% of total investment, whereas state investment had declined to 5% in 1995, and 72% of finance had to be acquired from other sources in 1995 (Hussain & Zhuang 1997). The lack of quality contemporary contributions from such a partner partly defeats the advantages of a JV over a WOS, despite which MNEs are more likely to use IJVs in centrally planned or hybrid economies when the local government prefers such co-operation, even if WOSs are permitted (Tallman & Shenkar 1994). A WOS would seem to be a better alternative under these circumstances, especially as it also offers a level of independence from government interference, whereas in reality such interference appears to be similar in kind and degree for both WOSs and JVs (Woodside & Pitts 1996).

The contributions made by partners to IJVs tend to fall into two main categories, which are generally either *structural* or *enabling*. The main contributions of MNEs to manufacturing JVs have been found to be *manufacturing technology*, *product know-how*, *patents*, *business experience*, *technical training*, and *management*. Local partners naturally contribute mainly in those areas familiar to them i.e. *knowledge of the domestic market and environment*, *contacts with government*, *financial institutions*, *local suppliers*, *labour unions*, *local financing*, and *local management expertise* (Dymsza 1988). Glaister & Wang (1993) found that foreign joint venture partners in China seek complementary resources such as *the ability to negotiate with the host government*, *related businesses*, *appropriate financial status or resources*, and *an established marketing and distribution system.*

(d) The Legal Framework.

EJVs are a formal method of participating in the China market insofar as the 1979 legislation which governs such enterprises *(The Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment - adopted 1 7 1979)*, requires the setting up of a separate company, being independent of the business activities of the parties, with a formal limited company registration and the issue of shares, of which the foreign partner must hold a minimum of 25%. As with normal limited liability company formation in the West, the rights and liabilities of the parties are measured according to their proportionate shareholding. The 1983 legislation (see above), Articles 14 and 16 include the required format for a JV contract, and the format for the Articles of Association. Although Lewis et al (1995) note that the MOFTEC standard-form contract was drafted very much in the interest of the Chinese side to the detriment of the foreign investor (Stopford & Wells 1972, Kobrin 1988).

A quality evaluation is applied to the foreign company's contribution at the time of application for approval of the EJV, to comply with the requirements of the legislation which requires that the foreign partner's contribution of technology must be truly advanced and appropriate to China's needs. The Chinese participant may provide the use of a site for the business, which is provided by the Government, usually free to encourage the EJV. The business is independent, in that it has budgetary, business and labour freedom, through a Board of Directors, the constitution of which is the responsibility of the parties. Senior level positions tend to alternate between the parties, and the most senior position of Managing Director or Chairman may be held by a representative of the foreign partner (Guoji Shangbao 1990, *The Regulations for the Implementation of the Joint Venture Law as revised 1990 Article 6*, Kan 1996).

The approval process of JVs in China also requires the standardisation of the JV's products, with penalties imposed on JVs failing to meet State imposed standards, or those laid down by the enterprise itself according to the *PRC Standardisation Law 1988*. This legislation, however, is specification intensive and does not address the issue of product quality, which is covered by the *PRC Product Quality Law 1993*, and which requires certain minimum levels of quality and appropriate product quality certification. Liability can attach to a manufacturer for damage to person or property resulting from a substandard product according to *Article 122* of the *PRC Civil Law General Principles*, and other regulations. Further liability can attach to the Company, with proportional liability resting with the foreign partner in the event of safety and workplace accidents, and failure to meet certain duties imposed on the officers of the Company in this area, can lead to criminal negligence charges on the senior managers of the firm (Lewis et al 1995).

Tax is applied on the Gross Profit, and a tax holiday of two to three years may be granted while a business is in profit. Reinvested funds attract tax reimbursements, and an enterprise is permitted to engage in foreign exchange transactions from a bank account established in China with the People's Bank of China (PBOC), (although, Article 8 of the 1990 revision of the JV Law allows JVs to transact business through other banks). JVs are also allowed to remit profits overseas and have the ability to obtain foreign currencies, provided they maintain credit balances within China.

(e) Technology Transfer.

Technology acquisition is a major issue in China's industrial regeneration strategy, and many JVs are evaluated accordingly, as it is with the majority of foreign JV parties for whom transferring their technology is an essential part of market entry. Technology is defined broadly by *The PRC Administration of Technology Import Contracts Regulations (1985)* 'Technology Import Regulations', as 'know-how' i.e. drawings, technical data, technical specifications, production processes, formulae, designs, quality control, and management skills, although the 'know-how' component is often described as 'proprietary knowledge'. Such technology contribution towards the formation of a JV is limited to a maximum of 50% of the total contribution of the contributing party, and cannot exceed 20% of the JV's total registered capital.

The Chinese describe any form of technology transfer as a 'licensing arrangement', which implies that the usage of the technology is finite and that the foreign JV partner has some control and continuing benefit from it. Whereas, *Article 15 of the 'Implementing Rules'* require that technology and know-how belong to the 'licensee' at the end of the term, and that the transferor should have no right to restrict the use to a limited period or to benefit beyond the agreed term. Where a royalty income is involved, JV approval terms will rarely allow these to be calculated on a production basis, preferring a sales basis instead. Whether or not an income accrues to the licensor or whether his benefit from the technology transfer is by value acquisition in the JV, the *Technology Import Regulations* state that the term of licence may not exceed ten years, except in special cases where the validity may be extended to the term of the JV or the life of the patent (Lewis et al 1995). The finite nature of such technology transfer agreements, amongst other potential problems, leads Tsang (1994) to conclude that WOSs should be preferred vehicles for the transfer of leading-edge technology to China. 4,423 technology import contracts with a total value of US$ 26.75 billion were concluded between the 'open door' policy of 1979 and 1991. One-third of technology transferred to China in 1991 was purchased either outright or by licensing arrangement, and paid for by way of foreign loans, which in 1991 alone amounted to US$ 1.15 billion. (compiled from annual Almanac of Foreign Trade in China, Zhao 1995). Technology transfer has continued briskly through the 1990s with 250,000 contracts signed by 1997, involving a transaction value of US$ 4.2 billion, which is an increase of 10.4% and 17% respectively over 1996 (China State Statistical Bureau 1998).

(f) Management Strategies.

'In environments undergoing deregulation, strategic management literature indicates that in the chaotic times surrounding deregulation, firms must change from an unfocussed strategy to distinctive and focused strategies to be successful'. Tan & Litschert (1994) have demonstrated that as the environment becomes more dynamic, complex or hostile, firms emerging from the Chinese centrally planned economy are more likely to adopt defensive strategies, and avoid innovative and risk taking strategies. Such defensive strategies have been found to result in higher overall performance and profitability, which in this case are found to be functions of firm size. Whilst Osland & Cavusgil (1996) are somewhat in accord on the issue of size, they propose that control based strategies are critical for effective IJV performance i.e. gaining decision making control of critical business functions, developing an effective sales force, retaining trained IJV managers, and influencing government officials.

Successful foreign participants in JVs in China have been found to be those emphasising a 'simplicity' in their strategic posture (Shaw & Meier 1993), which has some similarity with the 'defensive' posture findings of Tan & Litschert (1994), insofar as they both avoid risk in times of uncertainty. Such simplicity is proposed at the structural level i.e. establishing a simply structured JV, and also at the product and market strategy level, where successful firms are found to *focus on core global products* using current-generation technology to avoid being leapfrogged; do *an absolute minimum of product tailoring* whilst retaining design except for a China adaptation capability; *focus on China's top three urban markets* and plan for several regional production units to overcome transportation and local protectionism (Shaw & Meier 1993).

The *identification of possibilities* in the strategy creation process in China as related to product selection, should involve *environmental factors* which determine what types of products are feasible, *goals and preferences* i.e. establishment motives, and *internal factors* e.g. technology. The remnants of the planned market still have a strong effect on business, with bureaucratic central government controls influencing the whole Chinese market (Mann 1989), which is fragmented and subject to provincial patronage, and intra-provincial and Ministry competition. Such a process of analysis enables the identification of products and the formation of strategies attuned to the full array of circumstances (de Bruin & Jia 1993/4). The complexity of strategy formation for JVs in China is to accommodate the characteristics of the market in transition.

Adopting a strategic posture often requires management control which is the way in which an organisation influences its component parts, to behave in ways which achieve planned objectives. Research into common management and control strategies of JVs in China has found that the role played by the board of directors in making strategic decisions, and the composition of the board are important control mechanisms, as is the 'substantial power' associated with the position of the general manager (Schaan 1988, Yan & Gray 1994). Such control can be exercised through the structure of the JV, when the management system, decision process, and corporate policies of a JV, are similar to those of one parent who tends to exercise a dominant role. Although, 'no one sequence of decisions is likely to be best for designing successful IJVs' (Woodside & Pitts 1996).

The respective motives of the partners are found by Yan & Gray (1994) to differ, in that Chinese partners focus on upgrading technology, management, and earning foreign exchange through exports, whereas U.S. partners aim at higher profits, and local market penetration. This self interest attitude is reflected in the managers' dedication to their position in the JV. The study found that managers did not tend to represent the partnership, rather, each represented his parent firm. This posture itself appears to be beneficial insofar as it was found that the partner who exercises a higher level of management control achieves a higher level of performance, from its own point of view.

(g) Culture

Certain elements of Chinese culture are more important in business in China than elsewhere. These are identified as *respect for age and authority, group orientation, the importance attached to family relationships, close personal connections (Guanxi)*, and *'face'* (Child & Lu 1996). Prominent amongst these is the concept of 'Guanxi', i.e. personal connections, which is said to be an all pervasive feature of China business, and the 'lifeblood of the Chinese business community extending into politics and society' (Davies 1995). It is also proposed that 'the most important strategy for Sino-foreign JVs wishing to elicit favourable implementation of laws, rules, regulations, and policies from local authorities is to establish good personal relationships with strategically located individuals in business, government and bureaucracy who may be able to influence outcomes of questions and disputes in favour of the enterprise' (Roehrig 1994).

Guanxi is said to be essential to favourable negotiation and management of JVs. It is also described as a societal response to environmental circumstances of underdevelopment, law, opportunity for personal gain, and other situations which arise in a tightly controlled economy (Davies 1995). Guanxi has been found to have tactical limitations, insofar as whilst one can improve a competitive position by acquiring knowledge and developing favours and goodwill in this way, it does not normally overcome uncompetitiveness on price, quality, and specification. (McGuinness et al 1991).

(h) The Settlement of Disputes.

Disputes between the partners in JVs in China are usually resolved by arbitration, owing to the lack of experienced Judges and Lawyers to preside over such cases, and the distrust of foreign JV partners towards a foreign legal system. The China International Economic and Trade Arbitration Commission (CIETAC), provides an arbitral framework and even provides a list of candidate Arbitrators, some 30% of whom are foreign nationals, who are prepared and qualified to preside over cases even in third country locations, although always under the Laws of the PRC. Chinese JV contracts cannot be dealt with by foreign courts, although Chinese adjudications and CIETAC awards can be enforced in foreign courts. Negotiation is an essential precursor to arbitration under the rules, foreign JV partners are advised to put time limitations on such negotiations prior to their commencement otherwise the Chinese partner could refuse to accept that negotiation has been exhausted and refuse to go on to arbitration until he wins. Even then, arbitration in China tends to be mediatory which may disadvantage a foreign JV partner who seeks a clear-cut adjudication (Lewis et al 1995).

(i) Termination.

IJVs are inherently unstable organisational arrangements, because they allow firms to use the resources of other firms, and in the process, to increase their own capabilities. As a firm's capabilities grow, such co-operation of JV partners can be expected to diminish (Woodside & Pitts 1996, Madhok 1997). However, the *Sino-Foreign Joint Venture Law*, the *'Equity Joint Venture Implementing Regulations'*, and *Company Law*, do not allow either partner to unilaterally decide on premature termination, liquidation and dissolution of a JV, which requires agreement by all partners and the original examination and approval authority. Such consensus must go beyond a simple resolution to terminate, it must address the issues of the valuation and disposal of assets, ongoing contractual commitments, and other outstanding liabilities. Although the valuation of JV assets is complicated by the administrative controls imposed on the acquisition, transfer and use of the partner's contributions. Similarly, the large scale of uncollectable debts between enterprises in China makes it difficult to declare a final accounting balance on a JV's financial position. The final liquidated position is almost invariably arrived at by negotiation on residual value, in which the foreign JV partner is disadvantaged given that the value base of his contributions is greatly reduced by not being able to withdraw the technology transfer, or any rights to the use of a trade mark or China-dedicated brand. Similarly, land use rights cannot be attached by the foreign JV partner upon dissolution thereby reducing the overall residual value of the JV (Lewis et al 1995).

(j) Host / Guest Strategies.

(a)

One host strategy very clear in the legislation is one which can be used by the authorities to equate the value of the partners' inputs, such that a typically cash hungry local partner can 'buy in', by actually giving little more than market access. The issue revolves around the question of the respective investments of the parties, and the issue of 'the use of site' (Ostroff 1995).

All land in China belongs to the State, and there is no free market for the rental or lease of land (Article 53 Legislation 20/9/1983). Neither is it possible for one party, perhaps an existing EJV which has access to land, to loan or rent some of his 'use of land', because this is specifically forbidden. So there is no possibility of circumventing the system, which dictates that the use of site must be acquired by the local partner, and that such access has a value, and that such value must be agreed and approved by the authorities at the time of the negotiation of the JV agreement, which apportions the respective shareholdings of the partners. The exception to this rule, of course, is in the case of a WFOE which does rent land from the Government, for an agreed rental and period.

The legislation leaves a great deal of latitude for authority 'arm twisting' during the negotiation. The 1/7/1979 legislation (see above) Article 5 clearly states that the use of land will form part of the contribution of the Chinese participant, and then it goes on to say that if the use of the site does not form part of the Chinese side's contribution, presumably if the parties to the negotiation do not agree on the value, then the land use will have to be paid for by the JV to the Chinese Government. But given that the authorities, who have the job of approving the EJV, are also the people who place the value on the use of the site, and given that there is no commercial market from which to compare the cost of land use, and also given that the cost of one piece of land can be arbitrarily justified to be different to any other, then the authorities ultimately hold all the cards on the negotiation on the issue of shareholding by the Chinese partner.

This negotiating position was further strengthened in the 20/9/1983 legislation (see above) Article 48 which requires that the amount at which the use of site would be valued would be the same as would otherwise have to be paid. In other words, if the parties do not agree, then they would be saddled with the same costs, and to further concentrate the mind, Article 51 reminds us that if the use of site were accepted as part of the Chinese partner's investment, then that usage would be available throughout the contract period without adjustment. But if not, then it would have to be paid for at the same value anyhow, and then only remain unchanged for the first 5 years, and then every three years thereafter, and then the adjustments would be made according to the development of the economy (which in reality can only improve), changes in supply and demand (which can only improve the authority's position), and changes in geographic and environmental conditions (which can also be arbitrarily decided).

So, in reality this is a 'Catch 22' situation, whereas on the one hand the foreign partner can either agree to perhaps an unreasonable distribution of shareholding which may be out of scale with the investment, or he could bear the cost burden and future uncertainty, which may in the long run be worse. Thus we could say that this situation is the 'entry fee' into China.

(b)

The 'use of site' strategy is one most useful to the authorities at the outset, but is not useful thereafter as a controlling instrument, if the foreign partner has accepted the valuation placed upon it. So other controls which give the authorities continuing powers of influence on the business, are built into the legislation in an almost duplicitous fashion, in all the main governing laws. The pattern is always the same, on the one hand the legislation makes it clear that it 'protects' the rights of the foreign investor, and then on the other hand it either passes the final decision to the local or state authorities, or subordinates that piece of legislation to the greater law of China.

For example :-

<u>The 1/7/1979 legislation (see above).</u>

'The Chinese government protects, by the legislation in force, the resources invested by a foreign participant in a Joint Venture and the profits due to him pursuant to the agreements, contracts and Articles of Association authorised by the Chinese government as well as his other lawful rights and interests'.

the same legislation then goes on to say :-

'All the activities of the Joint Venture shall be governed by the laws, decrees and pertinent rules and regulations of the PRC'

.

whilst these are the regulations of a refined centrally planned economy with a fledgling commercial law, a situation which imposes a greater involvement of the authorities than is normal in business, with the possibility of over zealous application. It is clear that the legislators anticipated such from Provincial and departmental authorities, because another 1979 law contains the following Article 16 (later amended in the 11/10/1986 legislation - see above) :-

'All districts and departments must implement the 'Circular of the State Council Concerning Firmly Curbing the Indiscriminate Levy of Charges on Enterprises'. The People's governments at the Provincial level shall formulate specific methods and strengthen supervision and administration'.

'Enterprises with foreign investment that encounter unreasonable charges may refuse to pay and may also appeal to the local economic committees up to the State Economic Commission'.

It is usually implicit in business that a company can continue so long as it is solvent to do so, whereas, in China. *'when authorised the Joint Venture shall register with the General Administration for Industry and Commerce of the PRC, and start operations under licence'.* This licence is in effect a 'permit of continuity' and is renewed annually upon presentation of the Company's annual accounts, and relates to the continued achievements of the establishment requirements of the JV e.g. exports, imports, advanced nature of the technology, and foreign exchange surplus.

Thus the clear cut results of an annual audit which ensure that a company is financially able to continue, are confused by unclear measures as to the required level of advancement of technology, and the level of foreign exchange surpluses. The requirement to export is often misstated insofar as the regulations do not always require JV companies to export, JV companies are required to maintain foreign exchange balances to meet their requirements and exporting is seen as the most obvious means. JVs can earn foreign exchange by exporting other domestic products, or overcoming short term foreign exchange shortages by way of loans, by purchase from the official banking system provided the JV maintains a current account balance, or by reinvestment of Renminbi earnings in foreign exchange earning investments (Lewis et al 1995).

Similarly, *'the value of contributions shall be ascertained by the parties to the venture through assessment'*, with the authorities retaining an interest in the assessment process.

Further case specific and prescriptive powers result from *'A Joint Venture shall conduct its foreign exchange transactions in accordance with the foreign exchange regulations of the PRC'*, whereas these regulations state that the foreign exchange rights of a Joint Venture may be adjusted from time to time. Given that an EJV needs to repatriate profits and capital returns, then this ruling gives the authorities powers to contain the foreign investor in a way which goes to the root motive of his investment.

<u>The 20/9/1983 legislation (see above).</u>

> *'the government department in charge of the Chinese participant in a Joint Venture shall be the department in charge of the Joint Venture'. 'Departments in charge are responsible for guidance and assistance and exercising supervision over the Joint Venture'.*

The term 'supervision' is used in the extreme to take over control of the business, in the event that the authorities deem that it is under-performing. The control of the Chinese partner enables the 'department in charge' to exercise leverage over the business given that the local partner is inevitably beholding to this authority which originally bank-rolled his participation by way of the 'use of site' strategy. This 'leverage' on the partner, and thereby influence on the JV is cited as a major reason for maximising control, or embarking on a WFOE. A central and commonly recognised problem with local partners which are SOEs, as the majority are (Pan & Parker 1997), is that their operation and performance depend upon decisions not only of their managers, but also of supervisory government agencies (industrial ministries and bureaux) (Hussain & Zhuang 1997).

Control by the authorities extends to the various components of the marketing mix of the JV, e.g. :-

> *'Prices of products of a Joint Venture for sale on the Chinese domestic market, except those items approved by the price control department for valuation with reference to the international market, shall correspond with state-set prices'.*

In other words, there is a price control mechanism in place, which can vary the price from time to time, according to the economic fortunes of the country and not the needs of the enterprise. Similar controls apply in other areas e.g. in *promotion* inasmuch as advertising content and message can be controlled, *product* inasmuch as technology, specifications and models can be objected to, and *place* insofar as market areas can be designated.

In the absence of a long tradition of commercial practice, a tried and tested commercial case law has not evolved yet in China. In its place the government has enacted numerous laws to govern business which depend heavily on the arbitrary involvement of the authorities in both interpretation and decisionmaking. This inevitably leaves the new entrant unsure of his bargaining power position and his rights. Although, Article 2 of the 1990 revision to the JV Law gives a pledge that the State will not nationalise or expropriate JVs. In cases where expropriation is necessary in the national interest, then appropriate compensation will be paid (Kan 1996).

(c)

Two issues dominate the concerns of new entrants, firstly there is the bureaucratic control of the EJVs which disorientates companies from developed economies, who are used to a system of predictable risks within a well codified environment, and secondly there is the rigidity and pressure to achieve according to the original approval, such that companies are always chasing targets. These issues are discussed in greater detail as follows :-

> The intentions and constraints of the authorities may well be the same in the end of the day, as they are in the foreign investor's home country, but it is the continuing uncertainty which places the foreign partner in a possible plaintiff position in managing any of the activities of which he is supposed to have total control.
>
> For example, the regulations say that an EJV is free to export and import, by its own decision, under its own management, but it cannot do so without an export or import licence. It also cannot do so unless it has predicted the need to do so months previously in having built it into the plan for the period and had it approved, and it cannot do so unless it can pay for it, and, once again, it may not be able to do so unless it has built it into the plan, and notified the authorities accordingly of the foreign exchange expenditure, and so on. An import may have to be tested with regard to the level of need of it, or the availability of a similar product from a Chinese manufacturer, and the EJV could well be tactically manoeuvred into buying that local product, given that they would have notified of the purchase price, the application, and the specification, such that the Chinese supplier would know what he had to beat.
>
> In theory at least, an EJV can hire and fire employees, although in practice it requires approval from the Worker's Representatives (Trades Unions), who have the right to represent the worker, and the EJV is required to 'cooperate'. So JVs can acquire 'retainers' whom it is easier to pay than it is to fire. An EJV cannot move its premises, it cannot change its capital base or

its shareholdings, the partners cannot assign their rights and responsibilities, all without approval.

The uncertainty as to the measure of independence and autonomy which remains, is caused by the arbitrary approval powers of the authorities, which result from the gradual evolution and testing of the unfamiliar nature of commercial legislation. The overwhelming question in this area is whether case law based upon precedent will be allowed to dominate adjudications, or whether the authorities will continue in their supervisory role and retain their prescriptive approval system in line with central government strategy. Clearly, potential foreign JV partners would prefer to enter into an established tried and tested legal environment, and the resulting uncertainty is cited by many Companies as a major determinant in the formation of their entry strategy. (Hamill & Pambos 1996).

(k) Achievement Pressures

The pressure on a prescribed level of achievement beyond solvency, imposed by the authorities in China is a 'foreign' principle to many investors. Most of whom originate in countries which legally require only that a business remains solvent, with any target beyond this level being a self imposed corporate ambition. EJVs in China must predict and undertake levels of achievement in all things, at the outset when the application for approval is first made, and that being in the first year when all businesses are typically in a state of flux.

Any shortfall in achievement can result in the authorities taking on a role to 'supervise' the business, although in reality the authorities give time for a business to develop, provided they are satisfied that it is developing towards the goals for which it was approved. Similarly, the tax authorities, who require that tax be paid in advance quarterly and computed annually, have a system whereby they rollover from one period to another, and they have been known to continue this for up to 5 years, provided the proportion of payments is increasing, which evidences that the business is developing. A strategic understatement of targets, however, often results in proportionally higher foreign exchange earnings, profits, local consumption, and export level expectations, such that a JV is continually under pressure. (Pambos 1995).

Even if an EJV achieves its targets, the authorities have the right to adjust this annually not only in quantity, quality, and type, but to influence the business' activities in other ways by forcing a greater measure of exports, or precluding the production of certain other products.

(l) The Liberalisation of the Market.

Numerous control measures which were there to regulate the development of the economy were clearly hindering further fdi by e.g. restricting foreign exchange transactions, limiting local market access, investment, and foreign trade in Chinese commodities, restrictions on majority ownership e.g. one study showed that less than 10% of JVs were foreign majority owned during the 1980s (Beamish & Wang 1989/1). These restrictions were gradually lifted through the late 1980s and early 1990s (Plasschaert 1989) in response to worries from potential investors, resulting in a more liberal market environment further enhanced by the abolition of the dual exchange rate mechanism by the elimination of Foreign Exchange Certificates (FECs) in 1994, leading to the convertible status for the Yuan / Renminbi on current account in December 1996 (Strange et al 1997).

The centrally planned system for inputs and distribution of products was gradually converted to one governed by market forces, and beyond the product transaction level to include the labour market and the creation of, and access to stock exchanges. These changes had the effect of enlarging the market and allowing access to it, but foreign investors required greater protection in line with international norms, which led to international standardisation in the areas of contract law, formalisation of dispute settlement, proprietary protection (which were embodied in *The Implementation Regulations of 1983*), and fiscal issues. Improved market access and corporate security coupled with the opening up of the 14 coastal cities, resulted in larger sized Western fdi in longer term EJVs (Van Den Bulcke & Zhang 1996).

Sectoral restrictions on parts of the 'internal' economy were also opened-up to foreign investment, for example, in the retail sector which multiplied ten-fold from 1 million outlets in 1978 to 10 million in 1992. The average number of persons served by each outlet fell through the same period from 800 to 116, signifying the growth in the retail sector (Davies 1994). Price controls were also relaxed and many subsidies were removed to free the economy to market forces, for example, 'in 1978, 97% of retail commodities, 94% of agricultural produce and 100% of capital goods were sold at 'planned' prices. By 1987, 65% of agricultural produce, 55% of consumer goods, and 40% of capital goods had been freed of state price controls. By 1993, 10% of agricultural produce, 5% of consumer goods, and 15% of capital goods were still sold at 'planned' prices' (Lardy 1994, Pan & Parker 1997).

By the end of the 1980s, following two years of economic slowdown, China decided that future growth would depend far more on the collective and private sectors than on state enterprises. The 'market' determined the prices of nearly half the commodities sold in China by 1990, and collective, foreign-participated and private companies supplied more than 60% of the commodities ordered by state enterprises. These moribund companies required US$ 11 billion (17% of the national budget) in direct subsidies in 1990, and US$ 20 billion in loans. In spite of which the state enterprise sector's production grew by less than 3% in 1990, with the highest rates of growth in industrial output being in private enterprises (21%), and Joint Ventures and foreign firms (56%) (Rondinelli 1993). The reforms aimed at improving these state firms had little success (Furusawa 1993, Stepanek 1991), and most sources estimate that state firms were still losing money in the 1990s (China Economic Digest 1993a, Economist Intelligence Unit 1993, Far Eastern Economic Review 1992, Fujimoto 1992).

The underdevelopment of the environment is still such that often JVs are unable to obtain lists of potential customers in China. As a result they face at least three different challenges, *how to obtain information about potential orders*, *how to influence the Chinese decisionmakers so as to win business deals*, and *how to handle the implementation of the orders they receive*. However, the gradual reform of the economic system and the liberalisation of the market, have decentralised purchasing to the end-users, who increasingly make their requirements known (McGuinness et al 1991).

Table 3.8

Chinese Exports and Imports 1978 to 1997

	Exports / GDP	Manufacturing Exports / Manufacturing Output	Imports / GDP	Manufacturing Imports / Manufacturing Output
1978	4.62	5.42	5.16	n.a.
1979	5.10	n.a.	6.01	n.a.
1980	6.00	5.22	6.62	7.57
1981	7.20	n.a.	7.61	n.a.
1982	7.58	n.a.	6.82	n.a.
1983	7.37	n.a.	7.23	n.a.
1984	8.10	n.a.	8.65	n.a.
1985	9.02	8.18	14.03	22.37
1986	10.61	11.57	14.69	21.90
1987	12.29	13.06	13.49	18.09
1988	11.83	13.44	13.77	18.35
1989	11.57	12.92	13.01	16.34
1990	16.10	19.89	13.89	18.72
1991	17.70	22.55	15.72	21.44
1992	17.55	24.15	16.68	23.94
1993	15.32	19.76	17.35	23.62
1994	22.34	27.59	21.46	26.97
1995	21.32	28.21	18.96	23.86
1996	13.40	21.70	12.00	19.30
1997	21.10	28.30	16.10	21.90

Notes : The figures for manufacturing output in 1993 - 95 were calculated on the assumption that the proportion of manufacturing output in these years remained at the 1992 level, these figures are likely to under estimate the true value of manufacturing output.
All ratios are expressed as percentages

Sources : *China Statistical Yearbook* 1993 pp.31 & 633, 1996 pp.42, 403 and 579-83, *China Industrial Economic Statistical Yearbook* 1988 p.18, 1990 pp.7 and 17, 1992 pp.7 and 17, 1993 pp. 7 and 17, *USEIA* 1997, *China Today - Business & Investment - InfoPacific Development (IPD) - Beijing China* 1998, 1997 '*National Economic and Social Development*' - State Statistical Bureau 1998. Updated and adapted from *Hussain & Zhuang* (1997)

China had more than 300,000 export oriented rural enterprises by 1990, which sold more than US$ 12 billion overseas accounting for about 20% of all China's exports. Between 1983 and 1996, trade was generally balanced, with seven years having a surplus and seven years experiencing a deficit. In the 1990s, however, China's trade was in surplus every year except 1993 (Prime & Park 1997). In 1995 exports accounted for 28% of GNP (Hussain & Zhuang 1997) and 40% in 1996 (Prime &

Park 1997), compared to just 4% in 1978, during which period China's reserves reached US$ 40 billion. Joint Ventures contributed about 40% of exports during this period (Hussain & Zhuang 1997). The special economic zones continued to dominate export production in 1991 when the Shenzhen SEZ in Guangdong province alone accounted for 25% of all China's exports.

Continued growth in exports will be essential if China is to obtain the foreign exchange, technology, and management know-how essential in the modernisation of its industries into the 21st Century. International trade activities will continue to fund and drive industrial development at home, and China's share of world trade has swung from deficit in 1980 to being the largest single trading nation with the USA in 1996, which is the world's largest single market.

2. *Summary*

This chapter has reported on the circumstances surrounding EJVs in China from an environmental perspective. An analysis of the main legal and policy issues has identified the influences imposed by the environment on the operation of JVs. Further study into the environment has shown the development of fdi by entry mode, sector, location and origin, and reviewed the efficacy of incentives and some disincentives resulting from local circumstances.

The contribution made by EJVs in China's economic development has been reviewed, as has the growth of this entry mode and the evolution of the strategy in terms of partner type, migration into the hinterland, management strategies, goals and preferences, the influence of culture, the settlement of disputes, and the level of stability.

The continuing liberalisation of the market has opened up new sectors to fdi and relaxed many constraints such as price controls, quotas, and foreign exchange balances, although some limitations still exist owing to the underdevelopment of the market infrastructure. A wide variety of such issues are presented in Chapter Four, which reviews the work of other researchers as published in the subject literature.

Chapter Four

Literature Review on Joint Ventures in China

The emergence, size, complexity and growing importance of China, both as a market and as a manufacturing base, has fuelled a large body of widely varied literature. The controversial limitations imposed on *entry modes, sectoral constraints, profits repatriation regulations, human resources (HR),* and *management*, in this highly structured market, have focused studies into these areas. Although, surprisingly whilst this highly codified environment narrows the field of study, very few research papers have delved empirically into the issues involved, preferring instead to present a general overview. The aim of this Chapter is to analyse the phenomenon of JVs in China based upon an examination of the available literature. It reviews the published findings of researchers and analysts across a broad spread of issues, encompassing both the controversial limitations to strategy and also the factors which influence the establishment, performance and stability of JVs.

An analysis of the literature covering the rationale for IJVs in China (Figure: 4.4), reveals the basis for their proliferation. Seven main categories of interrelated issues into which the majority of the literature falls, are identified in this Chapter. The most frequent interaction is found to be between *performance* and *strategy*, owing to the purpose of IJVs in China being to produce *performance* from a variety of *strategies*, and similarly in the areas of *management* and *efficiency*. It follows, therefore, that reporting on such results-intensive issues was delayed by the absence of data. Therefore, whilst there was a growing body of literature from the 'open door' policy of 1979 to the late 1980s, the bulk of studies appeared in the mid 1990s, when the results data became available to researchers to report upon, e.g. levels of *performance*, effectiveness of *strategies*, and levels of *efficiency*.

1. Description of the Literature

The literature on JVs in general has been discussed in Chapter 2 herein, this Chapter deals specifically with the literature on JVs in China. An early study by Koot (1987) identified the literature on JVs in China as tending to fall into similar categories to those common in IJVs in general, viz.:

- *the environment and rationales for JVs* i.e. the position of China in relation to the rest of the world, which produces an environment suitable for development by international participative means.
- *ownership and control* i.e. the establishment, structuring and ownership process.
- *venture autonomy* which is evidenced by the extent of independence and self-determination, and management and control.
- *choice of partner* i.e. the critical characteristics, and also the postural compliance to cultural issues, including HR.
- *agreement and protection* which in this specific operational case is reviewed as *strategy* and *performance.*

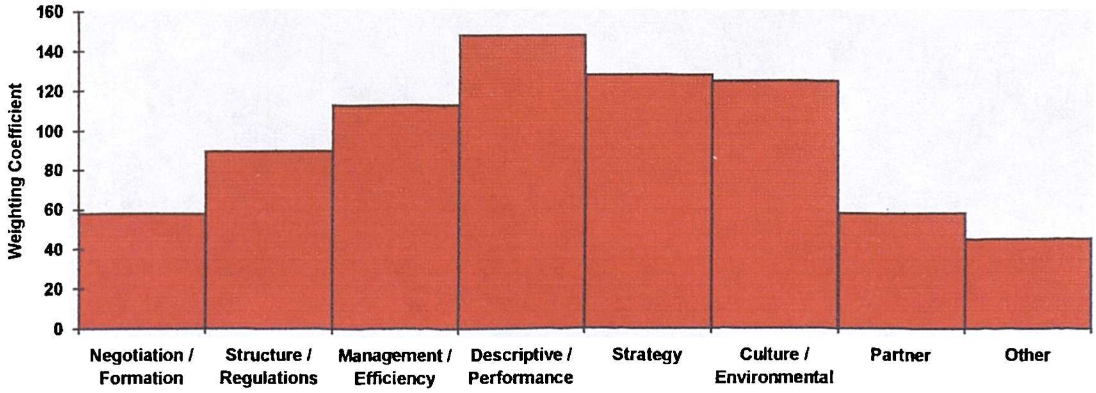
A more recent study by Kaiser et al (1996) presented their review in a developmental format, by starting with the *background* and going through the *form, composition, development, importance, sources,* and *distribution* of fdi in China. This literature review borrows from both these formats, on the one hand by examining the literature along the lines of the development of the subject i.e. from the *rationale of JVs* through to *termination,* whilst also maintaining the interrelationship of issues within categories as in Koot (1987), e.g. *inequality* which leads to *dispute,* which in turn results in *conflict,* which leads to *failure,* and eventually to *termination.*

The literature included herein includes 128 studies on JVs in China which have been selected on the basis of research quality and relevance from mainly *academic work,* although a number of *research papers, commentaries, news reports, environmental analyses,* and *company reports* produced by institutions, consultants, governments and other international bodies, have also been included to provide a comprehensive grounding for the analytical process. Selection has also been on the basis of the variety of perspective which enriches the pool of relevant information, and variety in methodology which provides support for the findings. *An example of this principle* is provided by Tsang (1994) who has as his main thrust the strategic issues involved in transferring technology to China, and has as supporting issues the management challenges and the characteristics of the technology, the impact of which is researched by Zhao (1995). de Bruin & Jia (1993) pick up on these latter issues and have as their main thrust the appropriateness of technology, similarly Eiteman (1990) and Ostroff (1995) focus on product selection, and do so within the constraints of the same environmental backdrop, but further bring into play the issues of management strategy, profit and cost. These latter issues are then investigated rigorously as the main tenet of Ostroff (1995), who pulls into the analysis other influences which are similarly dealt with in greater detail by other papers hereto.

The balance within the JV literature hereto, between that which is *general* in nature, and that which is *specifically* related to IJVs in China, is approximately equal in number with a ratio of 46% : 54% (i.e. 110 : 128 studies) respectively, with a further 16 studies being related to research methodology. Although to further delineate the areas of concentration, the JV literature reviewed hereto has been *'weighted'* according to its *main subject*, and the *first two subordinate issues*, on the decreasing basis of a 3,2,1 *weighting coefficient*, and these accumulated values have been plotted on a histogram (Figure 4.1), to show the *'leaning'* of the attendant literature.

Figure 4.1.

JVs in China Literature
Subject Weighted Analysis (3,2,1)

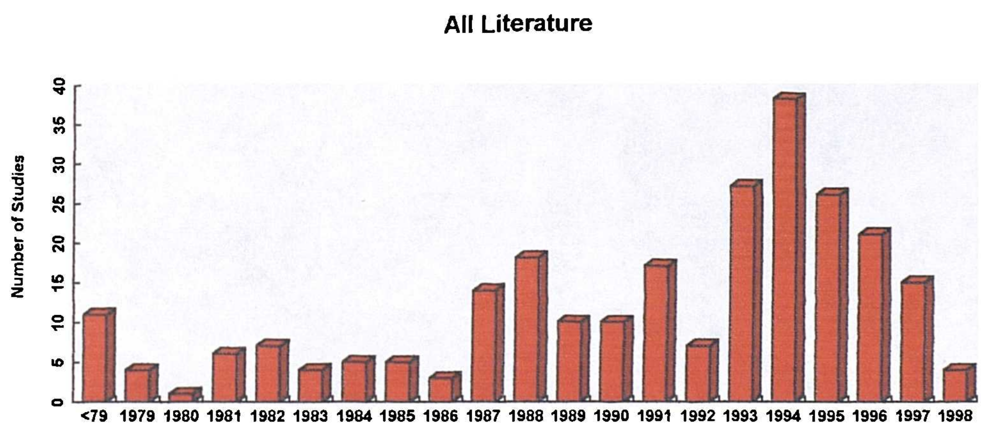


Total Number of Studies = 128

The age of the literature reviewed is inevitably important given the rapid changes in the JV environment, and many pivotal works remain relevant today, e.g. Beamish & Wang (1989), Shaw & Meier (1993), Weijan Shan & Hamilton (1991), Woodward & Liu (1993), largely because their cases are based on sound lasting theoretical premises. Whereas others such as Lockett (1987), and Tai (1988) who dealt with specifics, SEZs and 'keys to success' respectively, which are very specific issues have largely, although not entirely, been overtaken by events. However, the greatest volatility in the environment i.e. in legislation, economic factors, and bureaucratic 'kneejerks', tends to have already taken place, and the situation has settled down and matured in recent times, which implies that the later literature is likely to be relevant for longer than was the earlier work. Histograms of the frequency and age of the literature (Figures 4.2 and 4.3) show that the bulk of the literature hereto is less than 5 years old.

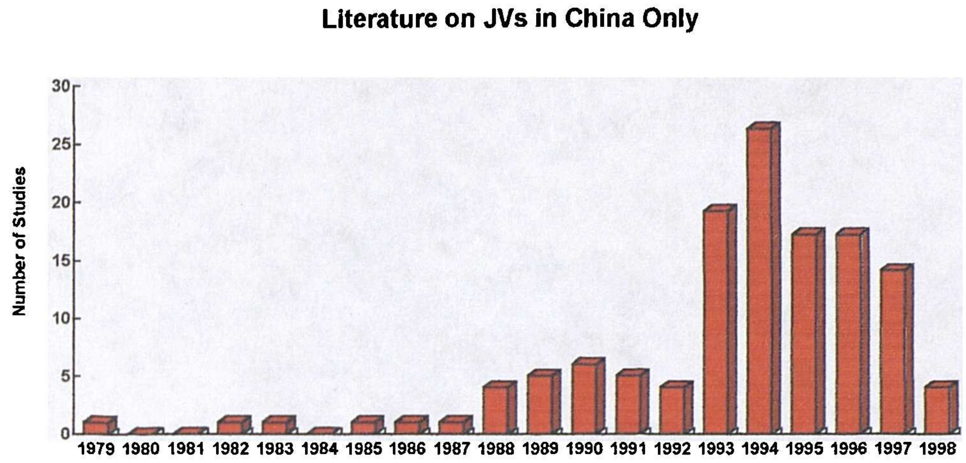
Figure 4.2

Literature Review
Frequency and Age of Literature



Total Number of Studies = 238

Figure 4.3



Total Number of Studies = 128

2. The Environment and Rationale for Joint Ventures in China

The following section presents an overview of the respective rationale of the participants given the environmental circumstances, and whilst the environment has been discussed in Chapter Three, this section reviews the environmental impact on JV strategies and management, as discussed in the literature (see Figure 4.4).

The rationale for the creation of IJVs in China from the Chinese perspective has been mainly founded upon three factors.

1. the outdated, unprofitable, uncompetitive, inefficient, insupportable and heavily debt and welfare burdened and over-staffed characteristics of the state owned enterprises (SOEs), which were the mainstay of China's pre-reform industrial base, and which still require *modernisation* (Hussain & Zhuang 1997).

2. the estimated 10 to 30 year technological gap between China and developed countries (Woodward & Liu 1993), was so large that it could only be filled by attracting advanced technology by way of fdi, which made China the most significant recipient of fdi in the developed world

(Economist 1994), and one of the largest importers of technology in the world, in the 1980s (Tsang 1994).

3. the EJV mode enables China to obtain technology, finance, management, and products, in exchange for allowing JVs access to the local market and other location specific advantages, whilst maintaining a shareholding and influence both directly by participation, and indirectly through the authorities (Tse et al 1996, Osland & Cavusgil 1996).

The alternative rationale from the foreign partner's perspective is based upon the emergence of China given its large population / market size, the rapidly developing economy being one of the fastest growing and among the 50 largest in the world (Speece & Kawahara 1995), which offers the strategic opportunity to gain access, reduce labour and resources costs and gain power vis-à-vis their competitors (Osland & Cavusgil 1996, Prime & Park 1997, Tai 1988/1). de Bruin & Jia (1993/4) identify these advantages as having caused firms' to adjust their global strategic and competition considerations and lured them, also by way of preferential policies, to participate in JV activities involving the transfer of technologies, which can be economically attractive particularly if the end products can be sold on the domestic market (Ostroff 1995).

China's economic development since 1979 has been founded upon the modernisation of old industries and the creation of new ones, based upon the acquisition of technology from overseas, much of which has been imported by way of JVs. Hussain & Zhuang (1997) observe <u>four major changes</u> in the environment during the reform period.

1. *the growth of market transactions* which has taken markets away from the SOEs.
2. the *international markets* exposure of Chinese companies.
3. the *increased sources of funding* which has broken the monopoly of governance by government agencies.
4. and *economic growth* which has lowered the risks of failure.

Figure : 4.4 The Rationale for the Establishment of EJVs in China from Foreign and Local Perspectives.

Foreign

* Access to China's market size.
* Reduced labour and resource costs for local and third market competitiveness
* Access to preferential terms and incentives.
* Local industries are outdated and uncompetitive.
* The ability to partner with an SOE and acquire the status and advantages at a relatively low cost.
* The divestment of SOE assets provides economic participation possibilities.
* Consumer spending increasing at a high rate.
* Liberated financial and regulatory systems.
* Opening up of sectors.
* Improving intellectual property rights.
* Possibility of equity majority and management control.
* Participation provides increases in foreign partner stockholder wealth.

Local

* The need to modernise outdated industries.
* To close the technological gap with developed countries by way of technology transfer.
* The immediate acquisition of developed inputs.
* Creation and local shareholding in 'new' business developments.
* The growth in market transactions enforcing competition and self-improvement on the SOEs.
* International market exposure and access to Chinese companies of international distribution channels.
* Increased sources of funding breaking the dependence upon and the governance of government agencies.
* Resulting economic growth which reduces the risk of failure.
* Ability to focus investment into preferred projects.
* Import substitution effect.
* Development of 'new' industries.
* Development of infrastructure.
* Industrial education / training.
* Assimilation of disembodied technologies and enhancement of indigenous technological capability.
* Increased productivity.
* Shift away from primary products to high value-added manufactures.
* Acquisition of first-world management skills.
* Acquisition of finance / investment funding.
* Employment creation
* Generation of exports and resulting foreign exchange earnings.

Derived from : Hussain & Zhuang (1997) ; Woodward & Liu (1993) ; Economist (1994) ; Tsang (1994) ; Tse et al (1996) ; Osland & Cavusgil (1996) ; Speece & Kawahara (1995) ; Prime & Park (1997) : Tai (1988/1) ; de Bruin & Jia (1993/4) ; Ostroff (1995) ; Beijing Review (1993) ; Kaiser et al (1996) ; Van Den Bulcke & Zhang (1996) ; Beamish (1993) ; Pan (1997) ; Thorburn et al (1990) ; Beamish & Wang (1989/1) ; Yan & Gray (1994) ; Hu et al (1992/2).

Within this improving and progressively liberated investment environment, certain projects are encouraged by China and some preferential treatments are given to them. These include projects earning foreign exchange by exports and others producing import substitutes, which amounted to one-third of the economy's foreign exchange income in 1994 (Beijing Review 1993, Kaiser et al 1996). Furthermore, priorities would be given to energy resources, transportation and raw materials industries, the renovation of outdated industries and education (Tai 1988). Zhao (1995) explains the transition from the importation of complete plants, mainly from the USSR prior to 1979, and paid for by long term 'soft' loans, followed by the technology transfer accompanying JVs. China has also been acquiring disembodied technologies, both by purchase and by licensing and manufacturing contracts, and borrowed US$ 9.8 billion from overseas between 1986 and 1991 to pay for them. However, priorities in technology and its acquisition have shifted in line with national development, away from machinery linked production JVs towards the energy, chemicals and communication sectors (Ostroff 1995). Zhao (1995) has also observed two main objectives and resulting JV opportunities in the importation of foreign technology, *the first* being to facilitate economic growth by increasing productivity, and *the second* to enhance technological capability. The same research has provided empirical evidence that imported technology complemented the enhancement of indigenous technological capability in China.

The motivations for participation and the choice of entry mode in entering China are discussed by Schroath et al (1993) along the lines of the Eclectic Theory of International Production (Dunning 1981, 1988a). The study attempts to explain fdi behaviour by using one of the key concepts of the Eclectic Theory, and proposes that the choice of foreign market may affect the choice of entry strategy (Buckley & Casson 1987). An example is given of a country of origin characteristic in terms of commitment to their predominant choice of entry mode, viz. : 'Hong Kong accounts for the lion's share of JVs in China, both in terms of number of JVs and in total value (Sung 1993, Leung 1994). Kan (1996) observes that many of these investments are 'gateway entrepot' investments by various nationalities including Taiwanese companies, whereas Schroath et al (1993) find that investment in each JV is, on average, the smallest of all countries. Similarly, research by Sung (1993) and Leung (1994) reveals that Hong Kong business has typically been in labour intensive sectors, and concentrated its activities on low cost and abundant labour resources in China, and as a trading partner and middleman. Firms from the USA and Europe are also found to most frequently participate in China by way of IJVs, although a greater proportion of their investments are in *higher* technology, and seeks longer-term arrangements. The research found significant support for the proposition that country of origin effects would be present in the pattern of foreign investments in China, both in terms of location and industry related factors, in line with the Eclectic Theory. Van Den Bulcke & Zhang (1996) defined that the most important impact of fdi on China has been the shift of emphasis away from primary products to labour intensive high value added manufactures, which have led to cross border linkages and export earnings.

In defining success factors Tai (1988) noted that there was very little experience data available on JVs in China at the time of the 'open door' policy in 1979, and there continues to be a lack of reliable statistics available on economic performance. Two reasons are cited for this, the first of which is also observed by Burrows (1995) in that data emanates from many different ministries, and has their particular twist to it, and the second is that many analysts reporting the data put their own 'spin' on it. As a result, and as Beamish & Wang (1989/1) observed, uptake was slow at first and then grew very rapidly, almost exponentially, until in 1984 alone, 640 JVs were established, mainly in the SEZs, and which were reported by Lockett (1987) to have failed to absorb high technology and advanced foreign management. Which contrasts with the positive findings of Van Den Bulcke & Zhang (1996), who identified a higher level of labour intensive / high technology inputs into the SEZs, than in any other region.

Au & Enderwick (1994) explain that in spite of the dramatic increase in the number of contracts, the average size of JVs actually decreased from US$ 1.4 million in 1987 to US$ 0.80 million in 1988, indicating the importance of smaller investors in China. Beamish & Wang (1989/1) reported the next stage of events, when the growth firstly slowed and declined by 1987, decreasing in absolute terms as participants started taking a more sober view of what the stakes were for doing business in China.

Shaw & Meier's (1993) study into the second generation of participants in China concentrates in the immediate period following those above, in which the authors present data which shows the magnitude of economic growth, e.g. with fdi continuing to grow to US$ 100 billion in approvals in 1993, of which US$ 20 billion actually materialised. Van Den Bulcke & Zhang (1996) provide a comparison to this in reporting a US$ 22.72 billion utilisation of fdi in the first nine months of 1994 alone, which amounts to 49% growth over 1993, whilst Shaw & Meier (1993) had previously offered a perspective by pointing out that capital approvals in Guangzhou in 1992 alone were greater than in all previous years combined. The literature reports the continuation of this trend through to 1996 when the EIU Country Profile (1997) reported that there were 240,447 registered enterprises involving foreign capital which amounted to a cumulative investment of US$ 174.9 billion between 1979 and 1996, although the report showed contracted investment to have fallen by 20% in 1996 which continued to decline by 50% in the first half of 1997, which the report blamed on the removal of duty exemption on capital inputs.

The comparative attraction of China to MNCs is reinforced by research such as Bjorkman & Schaap (1994) who report that 'many of the foreign companies in China are doing extremely well financially'. Favourable prospects are apparent from a progressively improving economic performance as outlined by Shaw & Meier (1993) and EIU (1998) who cite China's 1992 GDP of 8.5% with Asia / Pacific's 5.6%, North America's 2.4%, and Europe's 1.9%. GDP differential widened further through the nineties increasing in 1993 to 13.5%, and then progressively declining along with world trends in 1994 to 12.6%, 1995 10.5% and in 1996 at 9.7%. GNP has grown consistently through the period from 1991 at US$ 371 billion rising in 1993 to US$ 513 billion, rising each year through to 1996 at US$ 825 billion (EIU 1988), with average urban household incomes rising from 1991 US$1394 to 1993 US$ 1837. Shaw & Meier (1993) use this impressive data to propose that despite wide under-achievement (Speece & Kawahara 1995) caused by 'unreliable partners, low sales volumes, scarcity of local talent, and problems with local business ethics', investors should leave the 'experimental stage' of their investment in China and go to the 'second generation' approach, in which they should both increase the number and size of their ventures in China. Several sectoral examples are given by Shaw & Meier (1993) to show that some companies are increasing their commitment and are showing reasonable returns on their investments. Although much of this data runs contrary to the wider evidence of JV success in China e.g. most of the 55 advertising JVs in China are not profitable (Speece & Kawahara 1995), although this is said to be because Chinese consumers have ambivalent attitudes towards its messages (Luo & Min 1996).

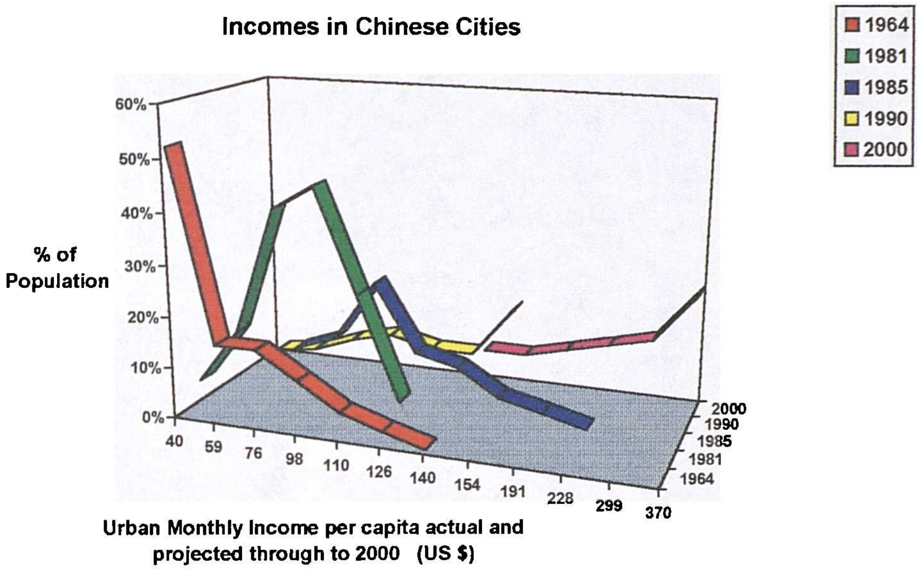
MacMurray & Woetzel (1994) focused their research on China's state owned enterprises (SOEs) which are still going through a metamorphosis from being fully supported arms of government, to the tune of US$ 90 billion in 1992 (14% of government revenue), the loss-makers were 26.4% of all SOEs in 1992 which the World Bank Report (1996) found had increased to 44% in 1995. The importance of SOEs in this case is based upon the fact that the majority of JVs in China are established in partnership with one form of state owned enterprise or other, and the involvement of SOEs in industrial production has been highlighted by Hussain & Zhuang (1997) as having reduced from 78% at the time of the 'open door' to 34% in 1995. However, Luo & Tan (1997) find that the reforms of recent years have done little to improve these state firms, many of which are 'complete sets' of industries in every province, of which Speece & Kawahara (1995) report that about two thirds are still losing money, with profitability remaining of little concern to some SOEs which are still living in the days of meeting central planning production quotas as a measure of success. However, nowadays 'they tend to produce products that few people want', the authors explain that in 1991 distribution channels were clogged with 200 billion Yuan of unsaleable products, with a further 100 billion Yuan remaining in factory inventories, which situation provides JV opportunities for foreign companies and SOEs alike. Such failing companies (SOEs), which are most often the local partners of IJVs in China (Beamish 1993, Pan 1997), can be a serious burden on JVs, particularly if they fail as they are now being allowed to do (Bankruptcy Law 1988), given that creditors in China are allowed to gain access to the SOE's JV interest as an asset. Pan & Parker (1997) point out that despite the

Bankruptcy Law of 1988, few loss-making SOEs have been made bankrupt, and whilst the actual figures reveal a reduction in the number of SOEs being declared bankrupt post 1996, there was a considerable increase from 2,348 in 1995 to 6,222 in 1996 (EIU 1998). The modernisation of the SOEs comes in the *third* 'managerial' wave of reforms, the *first* having been in the agriculture sector in the 1970s, the *second* in the light industrial sector in the 1980s. One strategy for reform employed by the government is to encourage the formation of new companies within which stronger companies absorb weaker ones (Business China 1997), and these structures at this stage offer opportunities to, and often include foreign JV partners to provide modernising inputs. Tai (1988/1) reports that the SOEs continue to be the main producing units in China's industrial economy, accounting for almost half of industrial production and over two thirds of fixed assets, and receive priority in the national plan, as compared to IJVs whose total production is reckoned to be about 4% of total (although the same data is erstwhile reported as foreign funded enterprises account for more than 8% of industrial output and fixed asset investment in China in 1990 Kaiser et al (1996), Thorburn et al (1990). MacMurray & Woetzel (1994) point out that whilst China's SOEs produced almost US$ 83 billion in 1992, and more than 300 of them had revenues in excess of US$ 100 million, many of them may not be up to the challenges of a more competitive market, and question whether many will have to divest themselves of some of their assets, with unknown effects on foreign JV partners' interests.

de Bruin & Jia (1993) concentrate their research on the management of Sino-western JVs, and particularly in relation to product selection strategy, which benefits from a reduced level of state involvement and control. They view the environment as improving since the government changed the national planning system in the late eighties / early nineties, making the provinces and the enterprises more autonomous and more self reliant, and the market will be outside the control of the central government altogether when this strategy is fully realised. The point is also made that as subsidies are gradually being withdrawn and the SOEs are having to run themselves on normal business lines, opportunities for investment and modernising participation are being created. Although as Goldie-Scot (1995) reports the government had been backing the SOEs with loans, 60% of them were said to be bad, contaminating 40% of the portfolio. In the same vein EIU (1998) cites the example of the China Construction Bank which has said that as much as 24% of its loan portfolio was bad, which situation inevitably impacts on the security of JV strategies with SOEs. MacMurray & Woetzel (1994) observe that the marketplace continues to be liberated with controls being removed from an ever growing list of commodities viz. 80% of capital goods have been liberalised, and the State Planning Commission has reduced the number of controlled products from 120 in 1980 to 33 in 1994, which equates to a reduction from 45% to 4.5% of China's total industrial output. The authors propose that the self reliance of the SOEs and the coincident liberalisation of the market offers 'a brief opportunity to MNCs to ally with or acquire key manufacturers and gain a beachhead for future nation-wide expansion'. Shaw & Meier (1993) identify the relaxation of restrictions in sectors previously closed to foreign participation e.g. banking, retailing, insurance, petroleum refining, and infrastructure, which along with the lifting of price controls on 90% of consumer products, and the reduction of volume-based planning for manufactured goods from 95% of industrial output in 1979 to less than 20% by 1993, enable JVs to 'move beyond the experimental stage' towards a rapidly expanding 'second generation' of JVs.

Tai (1988/1) attributes the stop-go of JV growth in China, the fine tuning of JV regulations by government, 'the frequent policy changes which plagued foreign investors', to the geo-political and internal changes taking place e.g. the then prospective and eventual absorption of Hong Kong and the Tiananmen incident, created uncertainties about the durability of China's economic boom (Tse et al 1996). Although the economic indicators gave all the right messages viz. US$ 11 billion in foreign investment in 1992 rose to US$ 111 billion in 1993 (US$133.04 billion by 1995 Luo & Tan 1997), making China the world's third largest economy at US$ 1.7 trillion (allowing for PPP adjustments), after the USA and Japan. The 'pull' on investors is still the sheer population size of 1.12 billion consumers, who 'do not hesitate to spend 80% of their new-found wealth' on acquiring the basics which they have for so long gone without. The China Briefing (1998) found that there has been a change from a seller's market to a buyer's market which has exposed previously hidden shortages, which Yan (1994) relates to the increase in consumer spending by 10% per annum in urban areas and by 8% per annum in rural areas, with private consumption increasing to 46.7% of GDP in 1996 (EIU 1998). Yan (1994) also shows how consumer wealth has grown throughout the economic reform period from a very low level for the majority of the population in the pre-reform 1960s, to the opposite situation with the minority earning very low incomes in the 1990s, and projected to improve :-

Figure : 4.5



Source : Government Statistics, Beijing University
Source : Yan (1994)

A study by Luo & Min (1996) into the performance of IJVs reviewed consumer spending and found that it is not all private, because the transitional phase in which China has been in during the early 1990s, from state ownership and control to greater liberalisation, has created two types of consumers. There are the private individuals who have discretionary spending power and choice for the first time, who are price sensitive and value conscious, and whose disposable income in urban areas has steadily increased by 10% per annum (Davies 1994). Then there are the state owned enterprises, the military and other government organisations' employees whose expense accounts are a 'halfway-house confusion' between private and government spending. This situation is clearly a hangover from the old days when the state provided all, and all was done in its name. Yan (1994) found that this situation is changing although all too slowly, as it is estimated that the magnitude of this spending was about US$ 16.6 billion in 1993, of which one quarter is thought to have been unreported. These 'expense accounts' purchased products such as cars, furniture, electrical equipment, office supplies, healthcare and entertainment. For example, the Chinese imported some 100,000 cars in 1993, 99% of which were paid for by expense accounts of mainly State Owned Enterprises (SOEs).

In reporting on market posture for IJVs in China, Yan (1994) finds that in spite of the development in the market as outlined above in Figure : 4.5, JVs need to adapt to consumer characteristics. He finds that whilst sales of foreign consumer goods have boomed during the 1990s, the average Chinese spends only about US$500 a year (after PPP adjustments) on luxuries, and yet owing to the current lack of choice, the consumer is prepared to spend one quarter of average weekly income on a bottle of shampoo. The author provides an example of the evolution in the local market by way of the ratio of premium-product to popular-product in one of China's largest department stores which has shifted in two years from 30 : 70 to 50 : 50 to 60 : 40, with imported brands commanding between a 20% and 50% premium. It is proposed that the reason the Chinese can afford a high proportion of consumption is because the government provides for life's essentials including food, although dining out is very prestigious and more than half of consumer spending goes on food. This leads the author to question the extent of the market accessed by many companies which have entered China on a 3-5 city entry level, whereas the author proposes that the opening up of China requires that the current equivalent entry level should address between 15 and 20 cities, given that 19 key cities account for 15% of the total population and 22% of GNP, and which for one food company amounted to 40% of unit product sales and 90% of the potential profit pool.

Many researchers identify problem areas close to their area of study, these compound to create tensions in JVs in China on a broad range of issues. Speece & Kawahara (1995) identify the lack of a refined regulatory system, and similarly Lewis et al (1995) points to the frequently changing legal system, whereas Lyles (1987) emphasises the cultural distance, the protective attitude of both sides each having a different set of goals. Boisot & Child (1988) found that the lack of a codified and clear regulatory system led to opportunism and caution on the part of those making commitments which was further confirmed by Tan & Litschert (1994), who observed that the regulatory system was most influential, least predictable, and most complex, compounding the aforementioned tensions with risk-related decisions. Seo (1993) reports that China's relatively unfavourable investment climate stems from a number of regulatory constraints. The resulting tensions at the operational level are bound to spill over to a higher plane, and there have been considerable problems between the USA and China, although these have been presented as observations on human rights violations, democracy, and proprietary property violations. Rondinelli (1993) has analysed the problems between the 'largest developed country, and the biggest developing country', although Li Lanqing, China's Minister of Foreign Trade has said (1992) that 'the USA and China are complementary and need each other as trading partners'. Clearly though, Rondinelli (1993) states, that there are two views to the causes behind the tensions and he identifies the important differences as being *Trade Barriers and obstacles* both countries would like greater access, *US controls on high technology* have been in place although these are gradually being reduced, *Quotas on Chinese exports to the USA in certain industries* e.g. textiles, in which China has a legitimate comparative advantage, *Unfair use of anti-dumping penalties against China* which the Chinese claim is unfair given that the US measures fair prices as being their domestic prices, *Failure of the USA to give China 'Generalised System of Preferences' (GSP) treatment* only the USA fails to accord these developing country privileges to China, *Restrictions on MFN status, US threats of trade restrictions if China does not adopt western trade practices* e.g. intellectual property rights, *Perceived Chinese trade barriers against the USA* e.g. trade barriers and market access controls, *Tariffs and other import charges* which actually amount to protection to certain potential client industries to US suppliers, *Import Licensing, Discriminatory standards, testing, labelling, and certification requirements* i.e. those which are greater than what is normally required by domestic Chinese competitor companies, *Subsidies, tax incentives and other support given to domestic competitor firms, Intellectual property rights, Red Tape, Stringent approval process, Foreign exchange restrictions.* Rondinelli (1993) proposes two measures to resolve the conflicts, *firstly* accelerate economic reforms, decentralise business and improve product quality, and *secondly* address differences in trade practices which are barriers between the USA and China. Note, however, that both these propositions are made from the US perspective.

Tan & Litschert (1994) note that as China's economy is being liberated and new sectors are being opened up to market forces and foreign participation, there is an increasing intensity for the limited resources including finance, and as Goldie-Scot (1995) observes the banking and financial sector in China is playing an increasingly important role while it is itself being reformed. In the same vein Keqian (1993) chronicles the development of China's financial sector, the modernisation of which has been every bit as radical as that in the greater Chinese economy since 1979. The author points out that the People's Bank of China (PBOC), was created in 1978 as an independent central banking arm of the Ministry of Finance, although for the most part it only disbursed funds for the Ministry. The PBOC has been joined by other state owned banks which have been set up to address sectors of the economy, and to provide a mix of products necessary for the development of a modern economy. Among these activities has been a full suite of business and personal banking services and also the issue of Treasury Notes and credit instruments, at home and overseas, to finance the enormous demands of a burgeoning economy. Yet, Keqian (1993) points out, the big four state banks, which dominate the banking system, remain undercapitalised and beset by bad loans made to SOEs.

Goldie-Scot (1995) concentrates on the tier of banking activities below that dealt with by Keqian (1993) and explains that the three new state 'policy banks' were created in 1994 to handle all state-directed loans, were given powers by the *Central Banking Law* in 1995 to impose commercially motivated time limits on loans. Especially important to this research has been the banks' involvement in the newly emerged stock markets, and the growth in foreign IJV participation in the Chinese economy, given that many IJVs finance operating capital requirements locally (Goldie-Scot 1995) (also see case studies hereto). Keqian (1993) believes that the dramatic economic growth in the Chinese economy is not necessarily a good thing for China, unless there is a complete overhaul of the country's financial systems, to iron out the inherent problems resulting from there being a state owned banking system operating market oriented financial practices. He proposes that the principle of ownership needs to be clearly defined in law, otherwise the problems prevalent in the Chinese credit markets cannot be rooted out. A corollary to which is proposed by Zhang & Yu (1994) in that financial sector reforms cannot occur independently of reforms in other economic sectors, until the link between investment and ownership is clarified. The China Briefing (1998) suggests that the tasks set for the banks in China, and particularly as regards their role in the reform of the SOEs, are to assist in the availability of funds, the valuation of assets, to increase capital and asset mobility, to guide investment and performance, and to facilitate the development of shareholding for enterprises.

Zhang & Yu (1994) reported on the development of China's emerging capital markets, and found that against a background of high level economic growth, rising salaries and double digit increases in retail sales, China has nevertheless maintained a savings rate close to 40%. Whilst at the same time, financing sources have been sought for industrial regeneration and economic growth other than relying solely on government subsidies, and these conditions have given impetus to the emergence of the securities markets. The authors chronicle the development of these markets since first shares were traded in 1984, bonds followed in 1988, and regional securities markets were opened in Shanghai (1990) and Shenzhen (1991). As an example of the proliferation of the markets they cite that total issuance by end 1993 was equal to US$ 86 billion with a further US$ 43 billion in the secondary market, 97% of which was in stocks, and to show market maturity and probity they explain that a national regulatory framework was put in place in 1992 to control stock market activities. Zhang & Yu (1994) also explain that the markets are serving the industrial development of China by explaining that whilst the government issues bonds to raise funds for the modernisation of China's industries, the overall strategy has been to privatise many state owned companies, and even some JV holdings have been floated. There seem to be many necessary modifications required to bring the securities market up to international norms and thus to attract foreign investors, although the authors expect the market to continue its bullrun well into the next century.

The development of the retail sector is proposed by Davies (1994) to be indicative of market reforms, economic development, liberation of sectors, and growing market access to foreign invested enterprises. The research explains that prior to 1978 all retail sales in China were controlled by the State, and were characteristically a *distribution* of products rather than sales. The author proposes as an example of the success of market liberalisation in China, that when free market retailing was permitted in 1978 store numbers grew tenfold to 10 million between 1978 and 1992, and consumption grew 250% between 1978 and 1992. The authors explain that Foreign Investment Enterprises i.e. IJVs are currently allowed to enter into the retailing sector, but because this sector is viewed as possibly exploitative, foreign participation is restricted to *JVs*, excludes *wholesaling* activities, 30% maximum *imported products*, 33% *income tax*, selective JV *approvals*, as a measure of deterrent. Yip (1995) finds that whilst major Asian retailers have found ways of getting into this sector, e.g. by way of a major city centre construction project, part of which is intended to accommodate a major international department store, they nevertheless have to keep an eye on macro environmental factors owing to the rapid and frequent changes in policy (Strange et al 1997).

3. Ownership and Control

Yan & Gray (1994) challenge findings prevailing in the literature that all potential JV partners prefer 100% ownership, and that equity distribution translates into the relative negotiating power of the participants, as also discussed *generally* by Longfellow-Blodgett (1991), and Stopford & Wells (1972). These are surprising findings into studies of JVs in China, given the highly regulated and value based environment, and can probably be attributed to the small (not significant) empirical base. The study accepts that the relative position of the parties changes over time, but that change is most likely to be detrimental to the foreign partner, owing to the inevitable dissemination of information (Hamill & Pambos 1996). Therefore, any minority or equal equity position which is perceived to be enhanced by proprietary knowledge and management, is bound to decay over time as the level of knowledge, and the need of the partners changes. Therefore, it must be beneficial to have management control apportioned according to equity share, rather than being achieved by *bargaining power* in a negotiation (Otterbeck 1981), the balance of which may change. As a result, firms are reluctant to sacrifice control where specific assets are involved (Hill et al 1990, Ingham & Thompson 1994), especially when these assets are brands which could be degraded, or when advertising is critical (Pan 1996). Such assets are described by Yan & Gray (1994) as the stake of the parties, and also their level of dependence upon the negotiated outcome. Thus it follows that a partner's dependence is negatively related to bargaining power, and positively related where the JV is dependent upon his irreplaceable contributions. In the case of JVs in China these may be investment, technology and management on the part of the foreign partner, and land, facilities and labour from the local partner. China's need to maintain the flow of fdi, and access to markets and WTO membership (negotiations for accession to which are described as being at an impasse - Business China 1997), has diminished its bargaining power, which is evidenced by the loosening of restrictions on IJVs and concessions made to foreign investors (Osland & Cavusgil 1996).

An evolutionary perspective is discernible in the literature which deals with the proportion of foreign ownership. The following analyses reveal changes in JV ownership patterns over time, by the comparison of 1980s and 1990s research findings. An early study by Beamish & Wang (1989/1) of over 800 foreign JVs in China, reveals that fewer than 10% involved a majority holding by the foreign partner, which is consistent with the characteristics of JVs in market-economy developing countries reported by Beamish (1985).

Table 4.1.

Foreign Equity Percentage in JVs in China

% of Equity		No. of JVs	% of JVs
5 - 24%	=	24	3%
25%	=	88	11%
26 - 48%	=	313	39%
(30%	=	71)*	
(40%	=	97)*	
49%	=	60	7%
50%	=	247	31%
51 - 99%	=	73	9%
		805	

Derived from Tables 6 & 7 Beamish & Wang (1989/1 — * taken from a sample n = 802.

Table 4.2.

Foreign Equity Percentage by Country

(%)	Hong Kong	U.S.A.	Japan	Europe	Other	Total
% of Equity						
< 40% *(33.4%)*	227	14	12	5	11	269
40 - 48% *(19.4%)*	132	9	5	8	2	156
49% *7.4%)*	44	8	4	2	2	60 *(*
50% *(30.6%)*	170	19	25	14	19	247
> 50% *9.1%)*	55	6	8	1	3	73 *(*
Total *(100%)*	628 *(78.0%)*	56 *(7.0%)*	54 *(6.7%)*	30 *(3.7%)*	37 *(4.6%)*	805

Source : Beamish & Wang 1989/1

Subsequent research by Pan (1997) concentrates on the ownership tendencies of Japanese, U.S.A. and Hong Kong companies :-

Table 4.3

Foreign Equity Ownership

Foreign Partner	Foreign Equity Share	1979-84	1985-87	1988-90	1991-93	Totals
Japan	<50%	45.8%	42.2%	48.2%	41.2%	44.8%
	=50%	41.7%	50.0%	28.1%	20.0%	34.3%
	>50%	12.5%	7.6%	23.7%	38.8%	20.9%
U.S.A.	<50%	53.3%	47.1%	61.3%	55.7%	55.6%
	=50%	36.7%	40.8%	19.0%	13.7%	24.4%
	>50%	10.0%	12.1%	19.7%	30.6%	20.0%
Hong Kong	<50%	67.6%	68.8%	64.2%	60.0%	64.5%
	=50%	24.7%	20.8%	12.2%	10.8%	15.9%
	>50%	7.7%	10.4%	23.6%	29.2%	19.6%

Source : Pan (1997)

The tables discussed above and the references in the next few paragraphs provide an example of the variety of information, data, and focus, available in the literature, such that when pieced together they provide a comprehensive, albeit focused view on the issue of ownership. For example, the comparison between the two studies above (Japan, USA and Hong Kong data only) reveals that there has been a change over time in the proportion of ownership sought by foreign partners, which has largely coincided with the relaxation of the regulations e.g. post Tiananmen. In the Beamish & Wang (1989/1) 1980s' study 61.7% of partners from Japan, USA and Hong Kong were prepared to accept a minority position. Whereas the data (Pan 1997) through to 1993 reveals that attitudes towards minority positions had changed, and only 55% took a minority interest. Similarly, in the 1980s 29% of the subject partners settled for an equal 50% stake, whereas in the 1990s only 24.9% partners of the same origin accepted this proportion. A majority position was sought by 9.3% of partners from the same origins in the 1980s, whereas in the 1990s study more than twice as many, 20.2% took a majority stake. A further study conducted by China Direct Investor (1998) reveals that during 1997 WFOEs accounted for 45.2% of all approved fdi in China, which exceeded both EJVs (43.5%) and CJVs (11.3%) in approval terms for the first time, owing to changes in legislation over time and the greater independence from local partners sought by foreign partners.

There has also been a change within the partner origins when compared to one another. For example, Japanese partners have become even less willing to accept a minority position or equal position, and between three and five times as often acquiring a majority as in the 1980s. USA firms are more prepared to accept a minority or a majority stake, although much less willing to accept an equal position than they were in the 1980s. Hong Kong firms are responding similarly to USA firms. The important point in this comparison of the above three very similar research projects (Beamish & Wang 1989/1, Pan 1997, and China Direct Investor 1998), is not just that the findings are important, but also the very fact that the research can be done to show the evolution, indicates that the research subject is mature. The literature is no longer as exploratory and more performance and efficiency oriented, and the produced data lends itself to sensitive analysis.

Beamish & Wang (1989/1) also found that over 30% of the cases studied by them were of equal ownership, but this does not necessarily result in equal control over all management decisions. JV businesses in China are run by a Board of Directors as required by statute and as prescribed by the JV's establishment approval. Frequently, positions in the hierarchy are appointed to the parties alternately, with the most senior position of Chairman often going to a notable Chinese. Sometimes the senior positions alternate between the parties often annually or biennially. The issue of which partner has management control has been found by Yan & Gray (1994) to be of major importance to many foreign partners, on the basis that 'the partner who exercises a higher level of control achieves a higher level of performance from its own point of view'.

The China JV Law which was enacted in 1979 and revised in 1990, which cover issues of *ownership and control*, require that shareholding should be apportioned to the partners according to their investment contribution to the venture's registered share capital. Cohen (1995) reviews this legislation and points out that this arrangement is rather inflexible especially when further investment is required for JV expansion, as has been found to be a common intention (Osland & Cavusgil 1996). According to the regulations, if the foreign partner injects more capital into the JV which the local partner may not be able to match, then this has the effect of diluting the local partner's interest. The law does not take into account that the total equity in the venture may be more valuable at the time of expansion than it was originally. The local partner can refuse to agree to the expansion to retain the balance between the partners, or the EJV can be converted to a CJV which is allowed under the regulations to apportion shareholdings and profits irrespective of contributions (Halasz & Lan 1996). However, the foreign partner may not be agreeable to this because the CJV regulations are less protective of his investment. Solutions identified by the author include the payment of a compensation to the local partner for the change in his position, and also the possibility of treating the additional investment as a loan.

4. Venture Autonomy

'Virtually no research on the relationship among bargaining power, control, and performance in JVs in China has been reported. What research exists either focuses on the macro environments in China or foreign direct investments' (Yan & Gray 1994). The authors claim that this is because the focus has been largely at a macro level concentrating 'on the rapid proliferation of JVs in transformational economies i.e. from central control to market orientation'. The study questions the validity of previous studies which use ownership as a proxy for management control in JVs (Longfellow-Blodgett 1991, Stopford & Wells 1972, Otterbeck 1981, Fagre & Wells 1982), because the authors (Yan & Gray 1994) found that 'equity structure is not equivalent to management control'. They claim it is a resource committed by the partners which translates into bargaining power which in turn contributes to management control. It is also said that the bargaining power of JV partners is dependent upon their relative contributions (Harrigan 1986). Hill et al (1990) argue that the question of control is pivotal where assets of tacit knowledge or proprietary know-how are involved. Yan & Gray (1994) found that where one parent replicated his way of managing in the China JV, then that reflected his level of control over the partnership.

However, Beamish & Wang (1989/1) find that the issue of control and the alternation of positions can be complicated by the respective contributions and expertise of the parties, especially in the technical area or local marketing or organisational functions, which would not usefully alternate. Decision-making may be shared or split between the partners. The Fujian - Hitachi TV JV Ltd., is cited as such an example in which the Chinese partner administers and finances worker's housing, medical and welfare costs, and the Japanese partner runs the technical and production areas, so decisionmaking in these specialist areas is split, whereas, issues of common competence such as hiring and firing are shared (CIDA 1984, Beamish & Wang 1989/1).

As sectoral constraints are being relaxed in distribution, sales, and even retailing, IJVs have taken *management and control* of these functions to get closer to their Chinese customers and establish a distinctive competitive advantage. Shaw & Meier

(1993) go on to point out that the fragmentation of the previously orderly (if inefficient) government distribution system is both creating gaps and opportunities for IJVs to internalise distribution systems (see case studies *Epsilon, Eta, Theta, Mi, Pi and Rho* hereto). These infrastructural distribution channel systems 'are fine for taking orders but generally abysmal at actively selling products, or meeting strict logistic standards'. Many of the IJVs surveyed in their research, and particularly of the more recent entrants, are building their own salesforces and distribution networks.

Whilst the regulations on the acquisition of foreign exchange have been relaxed, there remains an incentive to save hard currencies and reduce unit costs. de Bruin and Jia (1993) have found the maximising of local content to be difficult owing to the lack of qualified local suppliers, creating a dichotomy between this limitation to self determination and the inability to increase efficiency i.e. local content, to compensate (Tsang 1994). de Bruin & Jia (1993) also found the factors which contribute to this situation to be *high switch costs* i.e. the loss of scale economic sources of supply, *unbalanced price system* i.e. local prices are often higher for some components, and *poor infrastructure* i.e. insofar as this affects manufacturing costs, and transportation. The authors provide the example of Beijing Jeep which after 6 years had only achieved 50% of the localisation intended, and Shanghai Volkswagen achieved only 30% in 5 years. This situation may have much to do with partners either seeking to acquire bargaining power, on the one hand, or to retain it on the other, as Yan & Gray (1994) found that material channels constitute a source of bargaining power for the partner providing them.

5. Choice of Partners

Speece & Kawahara (1995) researched the characteristics essential in good JV partners in China, and report that finding the right JV partner is critical, and can impact on performance, making 'the difference between profitability and perpetual losses'. Among the characteristics they found that having 'connections' i.e. 'people who do favours to unravel complexities in getting things done', to be a major requirement. Although identifying such a partner is 'very difficult', and simply being Chinese is not enough alone. A Chinese partner who is genuinely in the 'web of mutual obligations' is probably already reasonably successful because a system of mutual obligations requires achievements to sustain it. The authors suggest that a potential partner should be confirmed to have real sales in China, which would indicate that he has connections, market access, market knowledge, and infrastructural influence, and should not be taken as suitable just because the company is a state or provincial SOE, because many of these are moribund and sometimes failing businesses. Pan (1997) who researched the formation of JVs in China found that Japanese companies have been found to prefer forming JVs with partners who have a connection with central or provincial governments, rather than one owned by a lower government agency, whereas US companies are less likely to seek partners at such high level. Glaister & Wang (1993) reported that SOEs do not necessarily have the best connections at high level, which is evidenced by the fact that many of them are currently being allowed to fail. In spite of which the majority of IJVs are already established with SOEs or provincial government companies, although Pan (1997) finds that the percentage of EJVs formed with companies owned by the central or provincial Chinese governments is reducing.

The difference in motives between foreign and local partners as discussed by Yan & Gray (1994), Fan (1994), and Mann (1989) complicates the issue of partner selection (as discussed in Chapter Three hereto). Local partners tend to be less interested in market share and creating entry barriers than they are in acquiring technology, know-how, and foreign exchange. Indeed the market share of many SOEs is less than 10 percent (de Bruin & Jia 1993). Conversely, (Shaw & Meier 1993) advise that foreign partners seek local partners who can contribute assets, expertise or access to land use, personnel, raw materials and distribution channels. Ostroff (1995) provides an example of land use arbitrary valuation whereby the foreign partner placed a value on his technology contributions, which the local partner thought was too high, and a similarly high value was placed upon the land-use fee, eventually both were agreed to be reduced. Another study, carried out by McKinseys (1992) found that the actual value of local partner contributions is low and steadily declines over time, or they were exaggerated at the outset. For example, sales contacts were found to be weaker than promised, sales and marketing capability was inadequate, as was access to suitable distribution channels. Skills, loyalty of staff, plant and equipment, access to material inputs are all issues where local partners were found to be deficient. Similarly, the affiliations, connections, and ownership of the local partner will indicate the level of influence and connections which may be expected of him (Osland & Cavusgil (1996). Shaw & Meier (1993) describe such high level supporters as 'mothers in law', the selection of whom they describe as critical as choosing the right initial partner. Some 'second generation' foreign partners have by-passed local entities altogether and created WFOEs assisted by appropriate mothers in law.

6. Human Resources

This section reviews the literature on the reported importance of HR management on business in IJVs in China. This issue is viewed in the literature from three main perspectives, the role, authority and number of expatriate managers, the management of the local workforce, and the legal, cultural and relationship management of local staff.

Expatriate managers in China are expensive and foreign JV partners in China tend to locate few foreign nationals, although it is rare for there to be none at all (Bjorkman & Schaap (1994). The US - China Business Council (1992) survey showed that in a sample of 33 companies (15% of which were WOS), 70% had 1 or 2 expatriate managers, while only 6% had no foreign nationals at all.

The need to protect the investment, and to ensure that technology and management are protected and operated sympathetically, underscores the need for a foreign partner presence in the JV's management structure. The implicit risk of information leakage leads Tsang (1994) to suggest that WFOEs present fewer such problems and are the best vehicles for transferring leading edge technology, owing to the presence of expatriate managers. Whereas irrespective of entry mode and retention of information within expatriate managers, Seyoum (1996) explains that competitive advantage created by technology cannot be sustained without adequate protection of intellectual property rights, the current legislation related to which is said by

Business China (1997) to advantage the 'home team'. However, Bjorkman & Schaap (1994) suggest that the high cost is often cited as the main reason for the small presence of foreign managers in JVs in China. The authors also find that western salaries, which are already many times higher than for local managers are often increased by between 30% and 70% to cover a 'hardship' allowance, and added to which is housing, education, travel, and transport, until total costs can be as much as 100 to 300 times the cost of Chinese managers. A large part of the cost of expatriate managers is often borne by the foreign partner, but even a share of this cost, say 50%, is still a substantially high sum from the perspective of the Chinese partner. The US - China Business Council (1992) survey found that almost one third of foreign partners paid at least 50% of expatriate manager costs. As a result, Bjorkman & Schaap (1994) find that there has been a growing tendency to promote Chinese employees to management positions.

Westwood & Leung (1993) claim that another limitation is the inability of foreign managers to adapt to the system of 'Guanxi', which is a system of reciprocating favours. Although Tsang (1994) suggests that the problem here is probably misstated in that it is probably not based upon cultural, ethical or communication inability to comply, rather that expatriate managers may not be serving long enough on China postings to develop the wherewithal and linkages to have valuable influence to exchange, or to have developed trust relationships to be approachable in this way. None of the authors who make much of the value and importance of 'Guanxi', has mentioned that there is another side to this argument, which suggests that there is an 'external' form of 'Guanxi', based upon business knowledge, contacts and third market business practices, and these would be more familiar to the foreign partner's management than to his relatively isolated Chinese counterpart. Roehrig (1994) suggests that the most effective way of acquiring favourable consideration in laws, rules, and regulations, is to develop such familiarities i.e. 'connections' with influential individuals within the authorities.

Bjorkman & Schaap (1994) found that expatriation in China is viewed as a 'hardship' posting, with residence periods tending to be too short to assimilate social protocols well enough. So their subject companies try to overcome this problem by hiring overseas Chinese, perhaps from Hong Kong, Taiwan or Singapore who, whilst there are broad cultural similarities, are far from identical. Furthermore, it appears to the authors that Chinese employees often despise or, more commonly envy the high salaries, seniority and freedom enjoyed by overseas Chinese, who Westwood & Leung (1993) found also tend to be arrogant and tougher towards the local workforce than Westerners. These findings also coincide with those of studies into the reasons for JV failure which found that 5 of the 7 main reasons for failure were people related, i.e. not being able to get along, reneging on promises, and parental allegiances, and only two were related to markets and technology (Lichtenberger & Naulleau 1993, Harrigan 1985).

The important feature of expatriate manager adaptation and behaviour has been tested by Black & Porter (1991) along the lines of two hypotheses. Firstly, whether US managers in a Chinese environment exhibit managerial behaviours similar to those of managers in the US, and secondly concerning the relationship between managerial behaviour and performance. The findings that expatriate managers in a Chinese environment behave similarly to those in the US suggests that Company culture largely dominates adaptation, however, such managerial behaviour was not found to be related to job performance. These issues have been further researched by Shenkar & Zeira (1992) along the lines of role conflict and role ambiguity of expatriate managers, given the simultaneous demands of the parent companies and other internal and external influences.. The task of general managers in IJVs is more complicated than that of their counterparts in WOS owing to the varied and often opposing expectations of the partners, and the lack of specific information (Schaan & Beamish 1988). The resulting pressures and demands on managers are such that they would be damaging to any organisation, but they are especially threatening to IJVs owing to the multipartite multicultural nature of the business (Shenkar & Zeira 1992, Holton 1981).

The HR management of a local workforce is most often the responsibility of the local partner, on the basis of local knowledge, and that often many employees may be transferees from his main business. Negotiations with employee representatives and with local authorities are often easier when conducted by a local, and preferably, government owned JV partner, than with a foreign WOS. The legal and infrastructural issues involved are discussed in detail in Chapter 6 hereto.

7. Culture

Asia has a distinct and strong cultural heritage which permeates all facets of life including business practice, which often includes a work ethic of dedication and loyalty to the employer as, for example, in Japan (Swierczek & Hirsch 1994). Fukuda (1987) reflects on how Japanese firms have previously tried to transplant their domestic work practices to their affiliates overseas, and particularly into Chinese cultures in S.E.Asia where they assumed a cultural proximity would make them acceptable. However, the research found that they soon realised that there are deeply rooted cultural differences which made the task very difficult. The study investigated the actual practice of Japanese style management in the Chinese culture dominated areas of Hong Kong and Singapore, the differences between the two locations, and the differences between them and Japanese practices. Attitudes in both Hong Kong and Singapore to Japanese management practices were found to be the same as those in Western countries, and only embraced Japanese management practices in areas where there was a cultural proximity. This study produced inconclusive results, despite the close proximity of Japanese and Chinese social cultures, and it provides no clues as to the extent of divergence with Western culture. This outcome produces a paradox for those who claim cultural dominance in business, in that here are two Chinese cultural societies whose business culture is characteristically western (Swierczek & Hirsch 1994) owing to their colonial history, and yet they resist closely related Asian influenced business practices. This issue of cultural distance, in the Chinese / foreign JV context, is taken one step further by Pan (1996) who finds that the extent of ownership sought by a foreign partner, is directly proportional to the cultural distance perceived by him.

Lockett (1987) defined Chinese culture as respect for age and hierarchy, group consciousness, 'face', and the importance of relationships i.e. Guanxi, which is dealt with by many authors from the perspective of its influence on business and the economy. The assumption being made is that it is socio-cultural factors which are imported into the process, and typically those Asian values and attitudes which relate to education, thrift, and deferred gratification (Rowley & Lewis 1996). However, many of these cultural factors are believed to be neutral and have little or no effect on economic behaviour. It is assumed that because these are typical Confucian traditions that a common East Asian economic culture exists. The authors posit that it is unlikely that socio-cultural influences have no effect on economic behaviour, the question is which of them do? It is claimed that East Asia has developed its own economic culture, 'a new type or model of industrial capitalism'. It would follow, therefore, that economic culture, would be responsible for East Asian competitiveness, and for the convergence of economic practices among the nations of the region. If indeed there are economic cultures which make certain countries and peoples behave in a distinct manner, then perhaps cultural influences may indeed be responsible for East Asia's economic success. The authors explain that there is another school which supports the notion that there is a neo-confucian economic culture which allows national cultures to adapt according to political, economic and social considerations. The success of East Asian economies is put down to the technologies imported from western countries coupled to the socio-economic-cultural values of the East to produce a more powerful model of capitalism, and are not necessarily the result of cultural exceptionalism. Rather the ingredients of competitive success are determined by institutional, structural, and organisational elements, and not least by state action (Rowley & Lewis 1996).

If culture plays a major part in business, aside from the goal orientation of modern business negotiations, then it should show during the negotiation process. However, Adler et al (1992) find that one of the three most important general sources of difficulty in commercial relations between, for example, Americans and Chinese are the cultural characteristics of both groups. For example, Tallman & Shenkar (1994) suggest that cultural divergence is likely to lead to contractual inefficiency making it difficult to monitor behaviour, and placing a greater importance on ownership. Eiteman (1990) has emphasised the importance of relationships, patience, the impact of recent history (particularly the cultural revolution), and the difference in Chinese and Western cognitive maps (Hofstede & Bond 1988). For example, during negotiations on a force majeure clause in a JV contract involving BOC, a government Chinese lawyer said 'we are a communist country we do not recognise acts of god' (Wood & Young 1995). Similarly, another group of authors cite the following Chinese cultural values as significantly influencing Chinese negotiation and conflict handling behaviour : *conformity*, *collectivism*, *power distance*, *harmony*, *face*, *shame*, *reciprocity*, *Guanxi*, and *time* (Kirkbride & Tang 1990, Kirkbride et al 1988). The list of empowering characteristics goes on and on in the literature, although few of the researchers have attributed them as indicators of the socio-econo-politico system and history from which they come (Adler et al 1992, Stewart & Keown 1989, Swierczek & Hirsch 1994, Lee & Lo 1993, Paloheima & Lee 1988).

Negotiating in modern China is a slow process with much of the delay time being spent appraising one another within the Chinese negotiating team of each of their opinions, and reaching a consensus (Eiteman 1990, Swieczek & Hirsch 1994), and then seeking guidance from higher up. So the importance of *time*, *collectivism*, and *reciprocity*, are all imposed by the system and are not necessarily characteristic of the cast of characters at the table (Hamill & Pambos 1996). One characteristic missing from all the lists is *suspicion*, being suspicious is viewed as defending your corner, and putting the utmost importance on the task at hand, although it must be said that this is often theatrically overdone. The study found that the majority of tested negotiations with the Chinese, achieved better results in terms of higher individual profits when they used a *competitive approach*, instead of a *problem solving approach* (PSA). Generally, the study reveals that Chinese negotiating behaviour searches for a win / win solutions, the exchange of information, and responds well to the interpersonal attractiveness of the negotiators (Adler et al 1992, Lockett 1987, Eiteman 1990). Osland & Cavusgil (1996) found that in the majority of JVs studied by them, both sides were satisfied with their venture's performance.

Kirkbride & Tang (1990) claim that the problems in Sino-American business negotiations 'can be traced to the cultural differences between the two countries', and describe the Chinese as tough, shrewd, and tenacious negotiators against whom American negotiators fall short. The evidence of major deals done with China on capital projects, when compared to similar project contracts elsewhere, does not support this view. A common belief is that a Chinese negotiator's value perception is different, a characteristic also recognised by Stewart & Keown (1989), Eiteman (1990), and Swierczek & Hirsch (1994), owing to China's relative under-development, and this coupled with the *time / delay* imposed on the negotiation (Lockett 1987), expresses itself as tenacity at the table which leads to brinkmanship and terminal posturing, and this in turn often makes both sides suspicious of an obvious win / win situation (Adler et al 1992). Even if as Kirkbride & Tang (1990) and Stewart & Keown (1989) recommend that one has included a concession in one's first price, which is a fundamental in Chinese negotiations, both sides know that it is there, and so it becomes just theatre (to provide face-saving), and negotiating beyond that point is what negotiating in China is really all about.

The extent to which culture has a role in business with the Chinese, aside from anecdotal case specific examples, should be evident from multiple case study of negotiations. 50 cases were studied by Stewart & Keown (1989) and factors for both success and failure, and negotiating strategies were compared. The findings contradicted much of the work of Lockett (1987), Swierczek & Hirsch (1994), and Tung (1982) which had suggested that cultural differences were the most important factors for failure, followed by product characteristics and Chinese insincerity. The findings were placed into three general categories of *high*, *moderate* and *low importance*. No cultural issues were placed by the respondents into the 'high importance' category as having affected the negotiations in one way or another. In the 'moderate importance' classification the reasons for both success and failure were mainly commercial and technical features, except for obscure items of *'relationships'*, *'patience'*, and *'sincerity'* in the case of success, which could be construed either as a recognition of cultural influences, or just reasonable negotiating posture, without any clear cultural influence because the same posture would be taken with a party of the same culture. Clear cultural influences are conspicuous by their absence even in the case of the issues of 'low importance', unless we include *'the old friend approach'*, or *'having a good interpreter'* as being more than just practical. Au & Enderwick (1994) found a broader range of issues were responsible for failure with labour and material problems, slow bureaucratic decision making processes, mismatch in management styles, insufficient training of Chinese managers, and infrastructural problems, being among the most prominent.

Similarly, with the case of failed negotiations as discussed by Stewart & Keown (1989), the two factors of 'high importance' were both financial, as in the area of 'moderate importance' the majority of which causes were product, competition, price, finance, and delivery, except for again some obscure issues of communications, sincerity, patience (Eiteman 1990), and friends. Again, even the issues of 'low importance' were characteristic of an ill prepared negotiator (Lockett 1987), rather than being driven by cultural influences. The study also analysed the amount of time spent on various issues thus illustrating where the 'sticking points' were, and this clearly shows that technical and commercial issues dominated the time at the table. Although, to be fair it must be said that any cultural influences would probably be evident within these discussions and not necessarily be items set apart, so in this respect the study does not seek to isolate those influences and, therefore, fails to address the issue of the effect of cultural influences in these negotiations. In the area of strategies Eiteman (1990) found that the Western side's attitude to 'both sides win' i.e. co-operation was high and 'defensiveness' i.e. standing firm was lower although still high. The Chinese negotiators displayed the highest rating for co-operation, and the same margin of difference between that and defensiveness. So we could derive from the research that the strategies in terms of priorities and dedication of the opposing teams were similarly disposed, although to a lesser extent. The Chinese side, however, showed some erratic behaviour in making sudden demands or changes in their tactics (22%), and whilst this may suggest contrary to the above that they were actually uncooperative, it is indicative of a 'puppet negotiator' i.e. as though someone else is pulling the strings. The need for consensus and the lack of authority (Lockett 1987, Eiteman 1990) typical in Chinese Negotiators has been discussed earlier.

Speece & Kawahara (1995) recommend that apart from having the economic and logistical wherewithal, a local partner in a JV in China should above all have 'connections'. Whilst it is possible to enter China by way of a WOS, which entry mode accounted for 16% of all executed fdi to 1995 (Van Den Bulcke & Zhang

1996), it has grown in popularity recently accounting for 45.2% of approved fdi projects in 1997 (China Direct Investor (1998) quoting MOFTEC data). Connections in China are essential to arranging that things happen *expediently*, and that things which require compliance with the complex machinery of a system in transition, are simplified. The authors also define that connections can also arrange to circumvent and overcome systematic impediments which are typical of a newly created regulatory system for business. The authors recognise the importance and difficulties involved in finding a partner with the right connections to plug into Beijing power centres, and this is particularly important when an SOE partner is involved.

A form of culture which does influence business and is bound to play a substantial role in JV management is the culture of the company, or as is particularly the case in a JV, the multiplicity of company cultures. These ethos based cultural influences would be inherent to both of the parties, and differ from socio-cultural influences in that they may have a similar target i.e. achievement, profit, and development. Such influences are ones that can be designed in or out, at the point of formation of a JV by the process of partner selection, e.g. partnering with a westernised firm rather than a local traditionalist one. Unlike socio-cultural influences, which are inevitable given the background culture of all local potential partners, company cultures are adaptable by decree according to the resolve of the partners. Cartwright & Cooper (1989) address this issue from a slightly different tack to that herein, the authors take the person / environment fit (PE fit) perspective and observe that 'many employees are 'old' ex-employees of one or both' of the partners. In this way they start from the bottom up observing that a lack of company-culture fit results in stress, low job satisfaction, productivity, and absenteeism. Whilst there is no doubt that a poor fit results in a demotivated workforce and that can lead to under performance, I propose that cultural influences at that level are more socially bound background influences, and whilst they can be very damaging they would not be as damaging as a poor fit at the company culture level

This example shows that both parties have special abilities in the area of 'deal making' and that 'Guanxi' is not unique to Chinese society, as it exists by a variety of names in many other cultures. It is, however, acclaimed by the Chinese as a limitation to outsiders doing business in China, whereas the most notable feature about 'Guanxi' in China as observed by Luo & Min (1996) is that it is 'nearer the surface' i.e. more common and open to all, than in some other cultures. In this respect it could be said that it is more common than in some other cultures, but not that it is unavailable to others with the communication skills.

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8. Strategy and Performance

The subject weighted analysis in Figure 4.1 above reveals *Strategy* and *Performance* as the two most frequently recurring themes in the literature hereto, with 45% of the literature having one or other as its main thrust, i.e. weighted '3'. Overall, the literature has a 36% weighted 'leaning' towards *Strategy* and *Performance*, with 27 items i.e. 23% being focused on the relationship between both subjects, making this the most common interaction discussed in the literature on JVs in China hereto.

Tan & Litschert (1994) find that despite the important role of formerly centrally planned economies, such as China, to western business, very little research work has been done on the strategic issues that have emerged during their transition to the market system. They suggest that in highly regulated environments such as is the case in China, management's decision making prerogatives are limited, and this they observe by way of two prominent perspectives. The first perspective is *information uncertainty* which is based on the perception that whilst the environment is the source of information, the information which is available is subjective rather than objective (Tung 1982), thus furthering perceived uncertainty. The second perspective is *resource dependence* which suggests that resources are scarce (deregulation increases intensity for competition of scarce resources), and must be competed for, management's ability to cope with these environmental conditions and control resources will affect organisational effectiveness. Osland & Cavusgil (1996) posit that government and organisational structures affect strategic options, as was the case in China until the early 1990s, when IJVs had responded with national strategies rather than global integration strategies.

Pfeffer & Salancik (1978) provide a theoretical perspective insofar as they suggest that in environments undergoing deregulation or, as in the case of China, undergoing change in regulation, firms should change their strategy from an unfocused to a distinctive and focused stance, in other words they should concentrate their efforts according to the environmental circumstances, the alternative would be for others to focus and gain competitive advantage by addressing the market more appropriately. This is in line with 'contingency theory' which is explained by Lawrence & Lorsch (1967) and Doz & Prahalad (1991) and is related to these circumstances by Osland & Cavusgil (1996) in suggesting that organisations which best match their environments will achieve the best adaptation. So whilst the theoretical premises are that firms should adapt and focus, Tan & Litschert (1994) find that the regulations in China are such that many of the risks involved during transition are overcome anyhow by the sectoral limitations which limit the strategic options available, and result in market share being a function of firm size.

Hambrick (1983) also comments on strategic posture in suggesting that firms in planned economies which are in transition will find that *proactive strategies* will result in a trade-off of profitability for market share, whereas *defensive strategies* will produce profitability. Tan & Litschert (1994) extend this view to JVs in China observing that Chinese managers in IJVs are taking on proactive market oriented practices, and market share is now seen as a legitimate strategic goal. The research in this latter study was aimed at measuring environmental *hostility* i.e. the availability and importance of resources, *dynamism* i.e. the variability and predictability of these elements (the uncertainty element discussed above), and *complexity* i.e. the diversity of these elements in the environment. The authors suggest that firms found the post 'open door' economic reform environment more complex than before, that the variability and predictability of the environment is as uncertain as ever, and that less threat is posed by environmental change provided managers are in tune with developments, although 'one would expect that high achieving managers would engage in innovative activities'. Whereas Tung (1982) finds that 'innovation in the PRC is encouraged but not properly rewarded'. Overall Tan & Lischert (1994) found that as the environment changes to become either more *dynamic, complex or hostile*, firms in economies in transition tend to adopt defensive strategies, and avoid innovation and risk.

Tai (1988) points out that many companies have been attracted to invest in China by the 'dollar per person' hypothesis, which is intended to give an indication of market potential, although he finds that 'the firms which have so far profited from their business in China are certainly insignificant'. One reason proposed by this author is that the participant companies' strategy did not recognise that China is characteristically a slow market to develop and should be entered as a long term investment. It is clear to Osland & Cavusgil (1996) that the magnitude of the investment, the tenure of the business and the pay back period are critical co-ordinates in the equation. Thus Tai (1988), Tsang (1994) propose that the choice of market entry mode in China is a critical determinant of likely success, given that whereas WOS give greater autonomy they also attract less preference from government buyers, and whereas equity JVs overcome some market access and other problems, they have a high rate of failure although not as high as CJVs, as is further generally observed by (Harrigan 1985). It follows that strategic flexibility is greatest in the case of least commitment and greatest risk, and least in the case of greatest commitment and least risk.

Luo & Min's (1996) analysis into the performance characteristics of IJVs in China, reveals a linkage between high market and accounting performance, and intensity of sales force marketing, although Tallman & Shenkar (1994) observe that 'economic measures of performance are not always an important consideration'. Whereas, Luo & Tan (1997) found that industry profitability and sales growth are important for overall performance and influence economic efficiency and market growth. The importance of sales force activity is claimed to have much to do with the influence of 'Guanxi', which the authors suggest some have made into a fine art. Lenient payment terms are also cited as important, although this was not found in their research to be linked to lower profitability. Experience, as the sum of OL discussed by Lyles (1994) is said by Luo & Min (1996) to be a significant factor in terms of the length of operation of an IJV, on the basis of the strong effect of 'learning by doing' (Kogut 1988). Although, Yan & Gray (1994) did not find that Chinese partners gained bargaining power through learning, largely owing to the defensive strategies employed by foreign partners.

Advertising was found not to affect performance to any great extent, as it is a relatively new concept in China, and consumers have an 'ambivalent attitude towards its messages' (Luo & Min 1996), often distrusting the claims made and often irrespective of price. The authors also found that product quality is highly related to JV performance, while high prices affected sales and profitability, because Chinese consumers are value conscious and price sensitive. Although, contrary to the above, McGuinness et al (1991) discovered, product quality, promotional effort, and quality of service, were more important in generating sales than price cutting and special offers (Strange et al 1997).

Aside from the measure of business performance of IJVs, there is a question as to the effect that IJVs have on a parent firm's value. Hu et al (1992/2) investigated the impact of US - China JVs on stockholders' wealth resulting from the extent of a firm's international involvement, given that one additional market entry will not be as great for well internationalised firms, as for those which are newly internationalised. The variables used in the analysis were the percentage of foreign sales, to signify the extent of foreign business activity, and the number of foreign subsidiaries, to indicate the significance of their involvement. The study found that MNEs with little international involvement received positive re-evaluation of their stocks at the time when IJVs were announced, whereas firms with a high level of international involvement saw little change in their stock valuations, clearly because the new activity was diluted in their overall involvement. Firms with a low level of international activity were found to have higher entry costs, yet their stock valuation was positively impacted owing to the investor's view of the benefits associated with the expansion.

Speece & Kawahara (1995) point to *product selection* as a major feature of the successful China JV strategy / performance relationship, the importance of which is evidenced by the 'dismal failure of the SOEs to provide the products that the consumer wants'. de Bruin & Jia (1993) analyse the main factors involved in product selection, using the experiences of major JVs with major products and brands as examples. The study finds that the main factors influencing product selection in JVs in China are *market demand* i.e. avoiding the SOE practices, *government policy* with regard to the sector i.e. receiving support, protection and patronage, *availability of local suppliers* i.e. being able to obtain raw materials and components, *Chinese partner's technology level* i.e. having local competence, and *production volume* i.e. being able to produce at economic levels, and at scale economic costs (Tsang 1994). de Bruin & Jia (1993) also found that there were different opinions as to the criteria of selection from the partners, with the Chinese government licensing approval being vital. Many JVs selected product strategy on the basis of financial / market oriented factors, and only 70% of the Chinese managers held the opinion that competition was a major factor in product selection. This latter factor is said to have much to do with the residual central planning supply mentality prevalent in many Chinese managers. Other JVs were found to select product strategy on the basis of global strategic considerations, and this is clearly the 'bigger picture' view of a foreign partner MNC which is seeking to incorporate the JV capability within its global strategy. 100% of foreign managers were found to hold the opinion that competition was a major factor in product selection, and this has probably much to do with them being more attuned to the profit motive and market share. Au & Enderwick (1994) found that most foreign partners sought *long-term profitability* and *local market penetration* as their main investment objectives, as there is a possibility that a JV could expire before sufficient return was generated (Pan 1996). This latter factor is often not appreciated by Chinese managers, again mainly because of the 'supply' mentality, and this is perhaps not surprising in a country where products tend to be 'regional', and as de Bruin & Jia (1993) have found even the SOEs rarely have more than 10% national market share. The first four of the above criteria for product selection i.e. *market demand, government policy, availability of local suppliers* and the *partner's technology level,* were supported by the authors and also by Ostroff (1995) as being important in a product selection strategy for JVs in China.

9. The Evolving Environment

The economic and politico-structural changes taking place in China, are viewed variously by researchers as offering all extremes of benefit and detriment. Tsang (1996) takes an optimistic view of the future insofar as economic success is bound to overcome political difficulties. Although, he also sees what might be the first signs of regional, clan, and party 'economic warlordism', which Rowley & Lewis (1996) identify as a problem which has dogged unity in China throughout history. Tseng et al (1997) posits that this tends to promote provincial protectionism discussed elsewhere herein, whereby the provinces have become highly competitive in vieing for concessions from central government, whilst resisting its command, with at least one province making demands for independence. Zhao & Tong (1996) accept that the investment environment is changing, and they view the situation from the perspective of spatial disparities in output, consumption and income, which they find continue to worsen through the nineties, despite austerity measures to control inflation. They describe inflation in China to have an 'administrative' nature derived from deep-seated systemic failures, which have boosted the spread of 'active localism', and weakened central control causing political tension. They deduce that 'disparity and inflation will induce an upsurge of rampant localism, which will economically and politically erode the investment and business environment', and negatively affect foreign investments. However, inflation has responded to austerity measures imposed in 1994 when retail price inflation was at 22%, and has been reduced to 2.8% in 1996/97, owing to a further fall in retail prices of 0.4% year on year, as a result of the 'monetary tightness' (EIU 1998, EIU Country Profile 1997).

Hussain & Zhuang (1997) have identified four main areas where reforms should be made. The first reform they propose should remove *government interference* into the day-to-day running of both SOEs and other firms. Secondly, the *structure of ownership* of enterprises requires to be clarified, and thirdly, there should be a *rationalisation of enterprises* to remove the inefficient ones, and finally a reform of *employment relations* is required as this is a problem area for employers and employees alike.

10. Conclusions

This study recognises the broad coverage of the research literature which is found to fall into seven main categories of closely related or interdependent issues e.g. structure and regulations, management and efficiency, and culture and environment. An eighth category consists of *'other'* issues the inclusion of which is important in providing comprehensive coverage, the relatively small size of which category indicates that the major issues had already been correctly identified. However, it follows that much of the literature focuses on more than one issue, the most frequent of which i.e. *performance* and *strategy* are most often interrelated in the literature. Literature on JVs in general precedes the prevalence of that concentrating on JVs in China, although given the approximately 50% content of each herein, there is a similar contemporary trend for both with growth in the late 1980s and a peak in the mid-1990s.

Much of the literature details the motivation for the formation of JVs in China as being based upon the emergence of China from its isolation, and the environmental conditions and inducements offered to attract foreign investment. Whereas a review of the *environment and rationales* for JVs in China reveals more specifically that the proliferation of JVs is founded upon technology differentials, market opportunities and reform of the Chinese economy both from the planned economic system to a market oriented system, and also in the structure of its industries. Many authors chronicle the growth of fdi in China, the comparative location specific advantages and the resulting positive development of industries. Although the under-achievement of JVs is also reported and JVs are recommended to go to a 'second generation' strategy and increase their investments, in the light of the liberation of the SOEs, the liberalisation of the markets, the lifting of sectoral constraints, and the growth of consumption in the domestic economy.

The reported shortcomings in the regulatory and legal systems are blamed for both opportunism and caution on the part of participants, which lead to tensions and risks. These are said to have spilt over to the international relationship level creating tensions between China and some of its trading partners. The literature shows that these problems are being addressed at their source with the further liberation of the economy and the opening up of further sectors, including the reform of the financial and banking sectors, and wholesale and retail distribution.

Issues of *ownership and control* feature in the literature claiming that the majority of partners prefer 100% ownership with commensurate negotiating power and control. The trend in the literature hereto reveals that partners are increasingly less prepared to take a minority stake, and currently most often seek a clear majority or even a WFOE, which in 1997 was in fact the majority approved entry mode.

In the area of *venture autonomy* ownership is suggested in the literature to be a proxy for management control, whereas many authors have found that 'equity structure is not equivalent to management control'. It is further found that the replication of management reflects the level of control, and it is proposed that the sharing of areas of decisionmaking is more satisfactory than is shared decisionmaking. Others have observed that management control is being increasingly used to enable further venture autonomy by the internalisation of distribution channels.

Similarly with the *choice of partners*, foreign partners seek to acquire 'connections' with authorities, although many authors agree that a major problem is that the difference in motives between the partners is based upon the local partners being less interested in market share and creating entry barriers, than they are in acquiring technology, know-how, and foreign exchange. Whereas foreign partners seek partners who can contribute assets, expertise or access to land use, personnel, raw materials and distribution channels. Other researchers have shown that such local partner contributions reduce in value over time, owing to numerous factors including the assimilation of knowledge, asset depreciation, and especially in terms of residual use period in the case of contributions made to a finite period JV.

A close relationship between human resources and culture is identified in the literature as is the influence of culture on business. Many authors point out the benefits of expatriate managers, whilst also noting the importance of cultural observance, and the fact that few expatriate managers stay in China long enough to become culturally attuned and acquire 'Guanxi' status and develop 'connections'. Issues of expatriate manager adaptation, cost, responsibilities of expatriate managers and those of locals, are discussed at length although at least one author notes the difficulties in both transferring and assimilating cultural issues, which is taken even as far as proposing that the extent of ownership sought by foreign partners, is directly proportional to the cultural distance perceived by them.

Conversely, the literature also proposes that many cultural factors are believed to be neutral and have little effect on economic behaviour. Although it is proposed by other authors that the success of Asian economies is made up of the technologies of the West coupled to the socio-economic cultural values of Asia. The effect of culture on business is found to favour the competitive approach, and to seek a win / win solution. Others go even further and suggest that Chinese culture bestows negotiating abilities not possessed by others, whereas yet other researchers explain this belief as being based upon a different value perception. This was borne out by one large sample study which found no substantial influence of culture on business.

The relationship between *strategy* and *performance* is a prevalent relationship in the literature, where it is often treated as the result of environmental opportunity and is dependent upon strategy adaptation. Other researchers find that despite such opportunities and adaptation, few companies have profited from their participation in China. Whereas, others suggest that certain strategies e.g. sales force marketing, good product selection strategies, and internalisation of distribution can provide significant advantages.

The evolving environment in China is seen as providing benefits in the removal of sectoral and regulatory constraints, and also detriments in regional, clan, and party 'warlordism' which fosters disunity. The spatial disparities typical of fast growing economies in terms of output, consumption and income are predicted to worsen through the nineties, despite fiscal controls, and are said to be bound to result in rampant localism, which in turn is bound to result in negative effects on foreign investment. Some researchers propose the solution of a further tranche of reforms to further liberalise the environment.

Chapter Five

The Research Hypotheses

This Chapter draws upon the information in the preceding Chapters and brings together the findings of previous research from Chapter Four *the Literature Review,* information from the theoretical premises of Chapter Two *Joint Ventures,* and the more specific findings on *Joint Ventures in China* detailed in Chapter Three, towards the formation of the twenty one hypotheses which are at the centre of this research.

The hypotheses are presented as problem statements, and substantiated with an analysis of the inducted information derived from the previous research in the literature, from which the propositions are formed. They variously question the findings of other researchers, seek to clarify apparent circumstances in terms of commonality, and are positioned to evaluate strategic postures on the basis of the sample data. The hypotheses are falsified where appropriate 'in a way that will make them most easily exposed to possible refutation' (Easterby-Smith et al 1991 pp39-40), and structured to provide a perspective of the inevitable interrelationship of factors, e.g. management and finance, and marketing and distribution.

Table 5.1 lists the hypotheses sequentially as they appear in this Thesis, and identifies the prime sources of the propositions, and other relevant references some of which support the hypotheses and others which may oppose them. A detailed discussion on the formation of the hypotheses is provided thereafter in this Chapter:-

Table : 5.1

The Hypotheses Sources and References	
Hypothcsis	Derived From
H1 : *China JV establishment and operational costs are high and negatively affect returns*	Rondinelli (1993, Seo (1993), Shaw & Meier (1993), Luo & Chen (1996) Strange et al(1997) Bjorkman (1996), Speece & Kawahara (1995), de Bruin & Jia (1993), Cartwright & Cooper (1989).
H2 : *Equity majority is often taken to acquire management control, although in practice this frequently falls short of free market self-determination.*	Eiteman (1990), Strange et al (1997), Luo & Chen (1996), de Bruin & Jia (1994), Hussain & Zhuang (1997).
H3 : *Foreign partner management control hinders the optimal development of JVs.*	Tse et al (1996), Strange et al (1997), Glaister & Wang (1993) Luo & Chen (1996).
H4 : *Local partners who are SOEs (i.e. national companies), do not necessarily provide national market access.*	Pan & Parker (1997), Child (1994), Tseng et al (1997), Luo & Tan (1997).

H5 : *The ability to meet export commitments and the acquisition of foreign exchange are affected by the foreign partners' international strategy.*	Luo & Chen (1996), Strange et al (1997).
H6 : *The low level of commercial development and the historical supply system infrastructure limits market access penetration.* H6a: *Market access / penetration in China is expensive owing to the absence rarity of specialist agency networks which could provide product complementarity (i.e. greater marketing efficiency) and scale economies (i.e. lower sales costs).*	Tseng et al (1997), Glaister & Wang (1993), Bjorkman (1996) Tromsdorff & Wilpert (1991), de Bruin & Jia (1994), Ministry of Internal Trade (Dec. 1993), Luo & Chen (1996), Tseng et al (1997).
H7 : *Advertising produces only a moderate positive effect on sales, and is most effective in promoting established products.*	Luo & Chen (1996).
H8 : *The Chinese consumer is frugal and seeks value, so price is the dominant marketing mix variable.*	Mahatoo (1990), Rowley & Lewis (1996), Luo & Chen (1996) McGuinness et al (1991) Wong (1995), Lockett (1987),

H9 : *There is a consumer preference for foreign brand quality products over the utilitarian quality of domestic products. The acquisition of foreign brands, quality, and products are major motives of local companies in establishing JVs.* H9a: *The acquisition of technology is the main motive of Chinese companies in forming JVs.*	Zhao (1995), McGuinness et al (1991).
H10 : *The dissemination of proprietary know-how leads to conflict.*	Rondinelli (1993), Shaw & Meier (1993), de Bruin & Jia (1993), Luo & Chen (1996).
H11 : *The transfer of technology leads to the emergence of new wholly domestic competitors.* H11a: *Continuing JVs are ones which remain dependent on the foreign partner for proprietary know-how and technology inputs.* H11b: *The retention of brands, components, and formulated inputs ensures income and leverage for the foreign partner.*	Rondinelli (1993), Ostroff (1995), Zhao (1995), Kaiser (1997), Bjorkman (1996), Lewis (1995).

H12 : *An entry motive to access the market size usually fails, although the market which is accessed usually produces JV performance at a high level of the establishment expectations.* H12a: *Market access and performance are frustrated by physical and infrastructural limitations.* H12b: *The main impediment to whole market access is politico-economic strategy (i.e. provincial protectionism, and regional strategic development.)*	Tai (1988), Luo & Chen (1996), de Bruin & Jia (1993, Tse et al (1996), Tseng et al (1997), Rondinelli (1993), Seo (1993, Bjorkman (1996).
H13: *JVs formed at the provincial level in partnership with local entities attract less attention from the authorities.*	Beamish & Wang (1989). Tse et al (1996), Hussain & Zhuang (1997), McMurray & Woetzel (1994), Pan & Parker (1997).
H14: *"Whatever money is being made by JVs in China is not being made in anywhere near the quantity, or with anywhere near the ease which had been expected".*	Tai(1988), Zhao & Tong (1996) Li (1989b), Luo & Chen (1996)

H15: *China's cultural traditions suggest that relationships between customers and suppliers may be more important than they are in western markets. The prevalence of 'Guanxi' suggests that sales force marketing has a positive impact on profitability.*	Lockett (1987) Rowley & Lewis (1996), Wong (1995), Luo & Chen (1996), Strange et al (1997), Speece & Kawahara (1995).
H16: *R & D intensity varies by industry / partner operation length, and has a minimal positive effect on JV performance, and a negative effect on accounting performance.*	Luo & Chen (1996), Rondinelli (1993).
H17: *JV size has a positive impact on local market performance.*	Glaister & Wang (1993), de Bruin & Jia (1993/94), Speece & Kawahara (1995) Luo & Chen (1996), Tan & Litschert (1994), Child (1972).
H18: *The age of a JV and the duration tenure of the investment are correlated to JV performance.*	Luo & Chen (1996).
H19: *There is an interaction between pricing strategy and length of operation.*	Strange et al (1997), McGuinness et al (1991), Rowley & Lewis (1996, Luo & Chen (1996), Mahatoo (1990).

H20: *Industry sales and profitability growth has a positive influence on IJV accounting return and domestic sales growth, and a negative impact on IJV exports.*	Luo & Chen (1996), Luo & Tan (1997).
H21: *JV performance in China is correlated to the level of synergy derived from the complementarity between the partners.*	Tromsdorff & Wilpert (1991), Speece & Kawahara (1995).

Care has been taken in the formation of the hypotheses to avoid *case specificity* whereby an observed circumstance is likely to be unique to a given research paper, *obscure inferences* which may result from a minority sectoral peculiarity, *negotiated or resultant outcomes* which may only evidence an effect and not a cause. The hypotheses are, therefore, structured to contain repeated or significant observations which relate to a major pillar or root cause of JVs in China, and are made correlational wherever possible to enable the analysis to reveal cause and effect.

The Hypotheses

H1 *China JV establishment and operational costs are high and negatively affect returns.*

This hypothesis is based upon the assumption that the 'costs', which include the asset value acquired by the investment and the operational and related costs to the foreign partner, are high owing to prevailing environmental conditions.

The main issue related to establishment costs is the inability of the foreign partner to equate the value of mutual inputs, given that local partner contributions are usually and mostly made up of land use rights and utility services, which cannot be evaluated owing to the absence of a free market for these inputs (see Chapter Three). The Chinese partner, of course, views this issue similarly, insofar as he cannot apply a market valuation on some foreign partner contributions such as proprietary production equipment, 'product', technology, and brands.

The definitive bargaining positions of the parties are based upon the level of need of the local partner for the technology, products, investment, and import substitution, and the foreign partner's level of need for the location specific advantages and market access. The difficulty in testing this part of the hypothesis is not just the special circumstances and case specificity of the achieved balances, but also the same issue of comparative values from which the partners suffer. In addition there is the complication of the variety of negotiated outcomes, whereby some participants change their investment strategy to a majority position, thus evaluating market access, management control, shareholding majority, and a marginal increase in investment, as being preferable to a share distribution based upon an inflated land value, which would dilute the investment.

Beyond this somewhat unique position there are equally extraordinary operational 'costs' resulting from China's 'relatively unfavourable investment climate, unstable political conditions, ambiguous rules and inadequate legal framework, arbitrary charges and bureaucratic red tape, stiff foreign exchange balancing requirements and restrictions on the repatriation of profits (although the two latter restrictions have recently been relaxed), and poor infrastructure' (Seo 1993). Some of these costs do not express themselves as financial burdens but rather as risks, which nonetheless have to be accounted and depreciated over the JV tenure, and perhaps sooner in the event of premature failure or escape (Shaw & Meier 1993, Luo & Chen 1996).

Whilst many Chinese partners provide access to distribution channels, most foreign partners prefer to establish their own sales teams and distribution networks (Strange et al 1997, Bjorkman 1996), often to operate their imported marketing management plans, which are usually more expensive for the JV in salaries and overheads, and also for the foreign partner in HQ supervision and support. The shift away from the pre-JV 'supply mentality' of the local partner, towards addressing the cultural indications (Speece & Kawahara 1995) of sales force marketing (as discussed in hypothesis H15), also results in costs for both the JV and the foreign partner, despite the fact that Luo & Chen (1996) have found that such marginal costs are low compared to the benefits.

'Costs' are also apparent in the area of market access and distance, to reach the market size on which assumption many foreign partners enter China (de Bruin & Jia 1993), although localisation in terms of materials and components has been found to be slower than planned owing to unique infrastructural and environmental characteristics, which result in further unplanned costs. The practice of credit granting creates costs in interest and bad debts, as well as financial risks (transaction exposure and default Luo & Chen 1996), as does the frequent 'inheritance' of old employees and their pre-establishment welfare commitments (Cartwright & Cooper 1989).

"It costs substantially more to operate in China than in many other locations in Asia. The costs of doing business in China are also increased by poor infrastructure and utilities, by inefficient support services, transportation, shipping and distribution systems, and by the poor quality of many inputs. These costs often outweigh whatever labour cost advantages foreign companies may attain by locating their production facilities in China" (Rondinelli 1993).

The inflated land use valuation increases the asset value basis of the JV company and has the effect of diluting the foreign partner's investment. So in testing this hypothesis it is necessary to measure the negative effect on returns, *firstly* on the basis of ROA for an indication of the integral 'efficiency' of the business, *secondly*, on the basis of ROI for an indication of the quality of the investment from the foreign partner's position, and *finally*, on the basis of operating costs which involve the other location specific costs outlined above.

H2 Equity majority is often taken to acquire management control, although in practice this frequently falls short of free market self-determination.

The majority (2/3rds) of all types of JVs in China are formed with SOEs (Chapter Three), the majority of which are failing companies, partly because of their level of development, and partly because of the subsistent 'supply' system from which they originate. As units within a command economy, SOEs have been production led with little need to develop competitive strategies or marketing skills, even the opportunity cost principle is not part of Chinese communist economic theory (Eiteman 1990).

The foreign partner, however, is most likely a successful MNE with a high level of management skills and proven strategies which have evolved over time, as have the skills in its people to implement them. These advantages once having been transferred are lost, and easily transferred to other companies and competitors. Unlike technology and brands which can be protected a little, although unsatisfactorily. Management know-how and technology often cannot be separated (Strange et al 1997, Teece 1981), so the renunciation of management control to a most likely inexperienced local partner may be detrimental to the JV. Conversely, it could be said that the foreign partner could also disadvantage the JV owing to his lesser knowledge of the marketplace. Although it has been found that *business strategy variables* (often the domain of the foreign partner) account for 40% of variance of profitability and local market growth, whereas *market structure variables* (local partner) accounted for only 10% (Luo & Chen 1996).

As the market share of many SOEs is less than 10%, and they are often restricted sectorally and limited regionally, FIEs are often forced to establish their own nation-wide sales and distribution networks (Strange et al 1997, de Bruin & Jia 1994). Although significant trade barriers still remain (as controls and targets in the case of JVs), interference even on a day to day basis in the management of SOEs (including their JV interests) is common. As a result, managers in SOE controlled JVs do not have the autonomy of their counterparts from market economies, and notwithstanding the major changes which have taken place recently, interference and government intervention will remain a fact of life for some time to come (Hussain & Zhuang 1997).

In practice government interference exists to some extent irrespective of which partner has management control, although there are practical differences. In cases where the local partner is an SOE and has management control, he tends to report into and receive instructions and guidance from his parent Ministry or Bureau. Whereas in cases where the foreign partner has control, the relationship with the approval authorities is often investigative and target oriented. This often leads to conflict with definitive disputes on what is 'viable', at which stage of development the business is in, the reasonableness of targets, the achievement of performance expectations, the level of technology transfer, pricing, production controls, labour, local infrastructural management responsibilities, local material sourcing and cost, foreign exchange balancing, competitive strategy issues and market access, and so on. This hypothesis assumes that a measure of specific authority intrusion exists, and seeks to reveal the extent to which a foreign partner controlled JV lacks self determination.

H3 Foreign partner management control hinders the optimal development of JVs.

Foreign partner management controlled JVs tend to receive different treatment from the authorities, than do locally controlled JVs. This has been recognised by European companies who as a result tend to favour a risk averse strategy (Tse et al 1996), by seeking out Chinese partners with the ability to negotiate with host governments and related businesses (Strange et al 1997, Glaister & Wang 1993). This strategy is in line with Hamel (1991) and Parkhe (1993), who suggest that maximising on synergies is most efficient, and that strategic partner selection has a significant impact on accounting return and market growth (Kogut 1988). However, there are reported tendencies towards the containment and internalisation of critical components of JVs in China, which reduce the opportunity for synergistic effects. Such retention of proprietary knowledge and access to business operations, usually practised by the foreign partner when he has management control, enables him to have the majority sectoral involvement in the business to the frequent exclusion of the local partner, and the potential of the local partner to make valuable contributions.

Whilst it is suggested that business strategy issues with which the foreign partner may be more familiar are more important than market structure issues in terms of accounting return and sales growth (Luo & Chen 1996), they nevertheless have to be applicable within the market structure in China. Whereas, distribution channels in China are relatively under-developed and are largely based upon modifications to the previous command economy supply system, and this is especially the case into the hinterland of China. The local partner would be more likely to have access to these established distribution channels, thus synergy between the partners would most efficiently blend existing strategy resource options, with a new management control strategy. Such a hybridised strategy would provide a basis for organisation learning, i.e. 'learning by doing' which would evolve strategy by experience over time, which is in line with Kogut 1988's findings that length of operation is significant for all performance measures.

This hypothesis assumes that the foreign partner imposes his strategy to the exclusion of local partner inputs of, for example, 'Guanxi', government connections, existing customer base, components and material sourcing. This extreme view is taken as a wholly foreign partner base position, from which to reveal the incidence and extent of co-operation and synergy between the partners.

H4 Local partners who are SOEs (i.e. national companies), do not necessarily provide national market access.

"SOEs have changed in the past 5 years owing to budget constraints, becoming more output and profit conscious with more managerial autonomy" (Pan & Parker 1997). Although a study by Child (1994) investigated the level of autonomy through a series of questions which go to the root of management independence, e.g. asset management, the freedom to join business consortia. The outcome of which revealed that management had no actual autonomy in the areas of mergers, alliances, ownership, production, assets, investment, Directors, and only 45% of the subject SOEs had any autonomy, and then on only one issue in the study, that being related to the hiring and firing of staff. As a result "the drive towards corporatization of the SOEs seems thus far to have had little effect on management attitudes" (Pan & Parker 1997). These same attitudes are those which prevailed in the command economy days, when the SOEs were simple production units, with quotas and regional responsibilities. This regional specialisation of SOEs indicates the extent of their market coverage, and this limitation may extend beyond a geographic limitation, into product type and specification.

The strategy of locating production capacity around China was part of the government's industrial strategy to distribute industrialisation (complete sets of industries), thereby creating employment and local self sufficiency, whilst simultaneously overcoming the problems of transportation costs and inadequate communications (Luo & Tan 1997). With the coming of the market economy, provincial governments seek to protect local industries in the interest of regional economic development and as a result "regional protectionism is still prominent in some cities, and this hinders the internalisation of distribution channels" (Tseng et al 1997).

SOEs are only able provide market access to the extent that they have, or are allowed to according to their level of involvement. "Distribution channels which were state controlled prior to the 'open door' have been liberated such that even the Bureau of Aquatic Products can sell TVs" (Tseng et al 1997). So it follows that any new developments in distribution channel access, beyond that which the SOE's partner already has, could be made by the JV, and this begs the question as to how much pressure would be placed upon the SOE's management, and also upon the distribution channel units, to restrict market access and thus protect local industries. Such a situation could restrict the JV's attempts to gain greater market access and penetration, and this would be a greater disadvantage if the SOE local partner has management control, in which case he may not be able to give access, even of he has it.

This hypothesis is based upon the fact that an SOE partner can only bring what he has in terms of market access, and furthermore that an effort to expand beyond the various parameters of his operations may be limited by his masters. So rather than providing market access, or expanding it, such a partner may be a limiting force. The testing of this hypothesis seeks to investigate the extent of access actually provided by SOE partners, from the indications in the literature, that SOE partners do not provide national market access.

H5 The ability to meet export commitments and the acquisition of foreign exchange are affected by the foreign partners international strategy.

A JV may consistently fail to meet establishment approval export targets, which would no doubt result in conflict with the local partner and the authorities. Although, production, sales and profits may have exceeded target levels, and the JV will often blame the shortfall in exports on product quality, whereas in reality the company may be concentrating on the domestic market. Luo & Chen (1996) found that when a market sector expands, a rapid initial development will ensue and there will be a surge in sales and profits domestically, and firms will concentrate domestically and not on exports (Bass Cattin & Wittink 1978, Newfarmer & Marsh 1994, Willmore 1994).

This is more likely to be the case when the foreign partner has participated in the JV in China with market entry as his motive. The suggestion is that large firms from the US and Europe tend to concentrate on the domestic market, whereas regional firms tend to 'finish' products and export or re-export them. Luo & Chen 1996 found that market entry to address the local market was the dominant motive of foreign firms, rather than production export concerns.

Whilst the requirement to produce foreign incomes from exports to enable the repatriation of profits to the foreign partner was reformed in December 1996, enabling a JV to make foreign transfers provided it has a balanced current account surplus (Strange et al 1997), export targets are still imposed on JVs. A concentration on the domestic market for the reasons discussed above frequently leads to a volatile situation and accusations of opportunistic behaviour being levelled at the foreign partner (Madhok 1995). The conflict that ensues is based upon the approval authority pressing the requirements of the establishment contract targets, the local partner who if he does not have management control is often 'piggy-in-the-middle', and the foreign partner who defends the position by pointing at the JV's overall accounting returns.

The testing of this hypothesis investigates the incidence of export targets, whether they are reasonable or not, whether they are met or not and at which stage of development, whether the JV is viable with or without such achievements, and whether a controlling foreign partner focuses the JV towards the domestic market in pursuance of his wider international strategy, and whether such a strategy affects the export performance of JVs.

H6 The low level of commercial development and the historical supply system infrastructure limits market access / penetration.

This situation may just be a feature of the level of development in distribution channels in China, because if there were a large number of channel routes into the far reaches of China, then this would create competition which would provide alternatives. However, at this time "the state distribution system still plays an important role in major urban areas" and "supply and marketing co-operatives account for a significant market share in rural areas" (Tseng et al 1997), although the key to market expansion may rest in "foreign investors would be allowed to create wholesale businesses" (Ministry of Internal Trade - December 1993).

Glaister & Wang (1993) reported that foreign firms consider an established marketing and distribution system as an essential feature of partner selection, although Bjorkman (1996) finds that few local Chinese partners are able to provide market access at this time. This latter view is probably an indication of lack of development which may explain Tromsdorff and Wilpert's (1991) findings in a study which ranked 20 success factors for JVs in China, in which list 'market access' was not included.

Given the absence of a large number of routes into the far reaches of China, and the possibility that an SOE partner may hinder expansion, JVs have only a few options. They could establish regional sales offices, they could establish other group JV interests in other parts of China which could exchange representation and benefit from local patronage, they could establish similar JVs with other parties in other regions and access the market separately, they could appoint local agents in different regions, or they could provide local stocks on an on-consignment stock basis.

The testing of this hypothesis questions the reported circumstances that distribution channels are underdeveloped both in frequency and commercial independence, and that this is evidenced by the various alternative strategies employed by JVs to access the regions. If this hypothesis is supported by the evidence then *the time to organise, the investment required*, and *the ongoing management inputs*, must be assumed to limit market access and penetration. The assumption being that it is not just because SOEs have less than 10% market share that forces FIEs to establish their own nation-wide distribution networks (de Bruin & Jia 1994), it can only be the unavailability of such distribution channels which forces both SOE partnered JVs, and others to establish new networks.

H6a *Market access / penetration in China is expensive owing to the absence rarity of specialist agency networks which could provide product complementarity (i.e. greater marketing efficiency) and scale economies (i.e. lower sales costs).*

New networks created by JVs owing to the absence of existing distribution vehicles are inevitably expensive to establish, both in terms of investment and time delay in accessing the market. Although, the investment does not stop at the point of establishment, it continues during staff training through to profitability, and involves additional investment in maintaining local stocks and expenses in distribution. Most of which costs would have been the burden of a wholesaler or distributor, if one had been available.

Such 'go it alone' strategies are also uneconomical owing to the lack of product complementarity which a wholesaler or distributor might have, and they are also expensive in developing an all new customer base, with a lot of expensive pioneering work to be done in the early stages, all of which supports Geringer (1991), who observes that there is a relationship between timing / duration of investment and JV performance.

One mitigating circumstance is that sales force expenditure is said to be significantly related to accounting return and domestic sales growth. Luo & Chen 1996 go on to base this finding on the importance of 'Guanxi' upon which sales force marketing in China is heavily dependent, the marginal costs of which are said to be low, compared to the marginal benefits. However, I would propose that sales force marketing is not appropriate in all cases, and is not necessarily the most economical way of addressing a large volume and widespread market, it is also slow and expensive.

This hypothesis questions the direct cost burden involved in market access given the absence of an adequate distribution infrastructure, and the indirect costs of the alternatives i.e. reduced efficiency, loss of economies of complementarity, loss of scale economic opportunities, all of which are borne by national or regional pricing structures, and so affect competitiveness, margins and overall JV profitability.

H7 *Advertising produces only a moderate positive effect on sales, and is most effective in promoting established products.*

Advertising is not entirely new to the Chinese consumer given the historical prevalence of government propaganda. Although, the use of mass media in promoting, and particularly in introducing new products is a relatively new departure, towards which Luo & Chen (1996) report ambivalence from the consumer. As a result they find that "advertising does not affect performance to any great extent, having an insignificant effect on firm performance, except for a moderate positive effect on sales growth".

Propaganda works by offering the consumer largely an unchanging diet. The ambivalence observed by Luo & Chen (1996) may well, under the circumstances, be a natural reaction to the introduction of something new in a new way. This supports another finding which suggests that advertising in China is more effective in promoting products which have a long presence in the marketplace i.e. established products. The overall suggestion is that advertising in China is not yet mature, and this is evidenced by the fact that 55 foreign participated advertising JVs in China were not profitable in 1996 (Luo & Chen 1996).

The testing of this hypothesis investigates the effectiveness of advertising on JV performance, and questions the assumptions related to established products.

H8 The Chinese consumer is frugal and seeks value, so price is the dominant marketing mix variable.

There is considerable contradiction in studies on this subject, on the one hand Mahatoo (1990) finds that 'Chinese consumers value low cost over other product attributes', and Rowley & Lewis (1996) advise that the carefulness of buyers in China is based upon Confucian principles of thrift and asceticism. Luo & Chen (1996) place a 'value' perspective on this issue, 'product quality is highly correlated with performance because Chinese consumers are value conscious and price sensitive'. Whereas, McGuiness et al (1991) suggest that 'contrary to popular belief, price cutting and special offers do not appear to be the best way to influence consumers'. Support for this claim comes from Wong (1995) who advises that 'the

Chinese concept of 'face' may encourage consumers to buy brands', this he bases upon cultural characteristics, and further finds that 'Chinese culture ranks everything hierarchically so that it is highly desirable to buy the best product (top brand)'. McGuiness et al (1991), go on to divert the issue away from price as related to value with 'the most important factors in winning sales in China are : product quality, promotional effort, and quality of service'. This is in line with the findings of Phillips & Chang (1993), and Dawar & Parker (1994) who have empirically shown in a broader context that product quality has a significant positive impact on a firm's economic performance.

Chinese cultural traditions suggest that relationships between customers and suppliers may be more important than they are in western markets (Lockett 1987, Sheng 1979, Walls 1986). Such a relationship benefits from lenient payment terms on the basis that Chinese consumers 'are value conscious and price sensitive' (Luo & Chen 1996), and seek value on all facets of the deal. Price is inevitably at the root of any search for the best value, Gallego & Van Ryzin (1994) found that pricing is positively linked with a firm's profit and mediated by product quality and market factors. Value is a relative measure involving price, quality, specification, features, and place. While the Chinese consumer is said to prefer quality and a 'top brand', it does not take much, in world quality terms, to provide him with a better quality than the utilitarian products he has been used to, and he may be satisfied with a first world obsolete product. However, the government seeks to ensure that imported technologies and the products of JVs are the 'state of the art'. Foreign partners also have global or regional interests in producing exportable products, and may wish to transfer first-world technologies to China JVs. So with high quality being offered to the Chinese consumer, the issue comes down to price, i.e. whether the product is being offered at a price that the market will bear.

This hypothesis relates to the pricing strategy employed by JVs, and investigates whether this is modified by competition, economic development, or by experience of market forces. What is the relationship between quality and pricing strategy, and how do JVs address distant market access, and how is the distant cost/price structure formulated i.e. regionally or nationally?

H9 *There is a consumer preference for foreign brand quality products over the utilitarian quality of domestic products. The acquisition of foreign brands, quality, and products are major motives of local companies in establishing JVs.*

H9a *The acquisition of technology is the main motive of Chinese companies in forming JVs.*

The issue of the motive of local companies forming JVs to acquire foreign brands, 'quality', and products as proposed in hypothesis H9, is separated from the issue of their motive to acquire technology as contemplated in hypothesis *H9a*, in an effort to reveal the real intention of local firms. Technology can be purchased, licensed, consulted, or rented, and thereafter it is difficult for the provider to retain control of its future use (Zhao 1995). Technology can also be used to develop new local businesses which may produce competitive products to those of the original technology provider.

Technology acquisition can be described as an *industry general advantage*, whereas the acquisition of brands, quality, and products is a *business specific advantage*. Such business specific acquisitions enable local companies to address their market along the lines of McGuiness et al (1991), who advocate product quality, promotional effort, and quality as being the main components of a successful domestic strategy. The above separation of general and specific acquisitions also has the effect of focusing the issues of 'face' and 'top brands', value / price sensitivity, and product / quality, into the area of business specific advantages, and away from the area of technology transfer. Technology, if not transferred, is assimilated by the local partner in the mature phase of a JV, as opposed to products and brands which are acquired early. An important additional distinction in the testing of these 2 hypotheses is the fact that the majority of technology acquisition in China between 1983 and 1991, for example, was not by way of licensing arrangements or purchase, but by way of JVs (Zhao 1995).

Whilst the distinction may often be a fine one, as observed by Teece (1981), 'knowledge transfer is often a package including both the tangible embodiment of the technology and the associated tacit management know-how, and the two often cannot be separated'. The testing of hypothesis *H9* seeks to identify the relationship between the formation of JVs and the transfer of brands, and products, and the extent to which these are acquired by the local partner i.e. according to his level of ownership and management control of the JV.

Similarly, *H9a* seeks to identify the relationship between the formation of JVs and the transfer of technology, the level of assimilation of the technology by the local partner, the 'quality' of the technology transferred, and the risk of loss of exclusivity of proprietary assets.

H10 The dissemination of proprietary know-how leads to conflict.

Rondinelli (1993) finds that 'Chinese minimise foreign investors' influence over internal operations and management of companies, whilst at the same time seeking to obtain the partner's most advanced technology and know-how', which as Teece (1981) reports are difficult to separate, and as Shaw & Meier (1993) expect would reduce in value over time anyhow. In other words both technology and know-how in a JV will become known to the local partner eventually, or they could be acquired from another source (de Bruin & Jia 1993).

Madhok (1995) advises that a major cause of conflict is when the relative contributions and comparative advantages of the partners change, e.g. technology assimilation, and learnt management. The result is a change in the relative power base of the partners, and a change in their level of dependence upon one another. This situation can lead to opportunistic behaviour which often comes from the local partner, given that he can afford to entertain ambitions of independence, insofar as once he has acquired the necessary knowledge he could operate independently of the foreign partner. Whereas, the foreign partner would always need a local partner so long as his engagement was by way of a JV. Such equivalence or sufficiency on the part of one partner provides the freedom for conflict, and this requires only an opportunity, such as volatility, perhaps caused by disagreement, or at a time of downturn in the JV's fortunes, for conflict to occur (Madhok 1995).

The level of proprietary know-how and technology transferred gives an indication of the level of threat posed by a technology empowered local partner. As does the involvement in R&D which is undertaken solely by the foreign partner, or jointly with the local partner, or even by a competitor, to provide an indication of an external threat. Luo & Chen (1996) observe that R&D intensity has an insignificant effect on JV performance, although it does have a negative effect on accounting performance. This, they explain, results from the fact that R&D results take a long time to produce accounting benefits. So R&D intensity is related to operation length, industry structure, and partner selection.

This hypothesis proposes a relationship between the assimilation of an independent technical capability within the local partner, the testing of which will seek to identify the incidence of conflict in the JV, the stage of development at which both situations occur, and the level of technical co-operation, joint R&D, and technology transfer, which has led up to the period of conflict.

> *H11 The transfer of technology provides the opportunity for the emergence of new wholly domestic competitors.*

A major factor in the metamorphosis of a typical Chinese company into a modern competitive unit, is the acquisition of first-world technology. Investment alone would only ameliorate the financial pressure on many local firms, and even if it were coupled with modern management, the company would only be able to run an inherently bad business more efficiently.

The 3 parts of this hypothesis address the issue of strategy from the extremes of *empowering of competitors*, through to control based upon *partner dependence*, and on to continuing *income and leverage*. Whilst simultaneously observing the distinction made between technology, which has wider implications regarding competitor creation, and proprietary know-how and the retention of brands, components, and formulated inputs (Ostroff 1995)..

The possession of technology is an enabling asset which not only enables in the sphere in which it is acquired, but it also enlarges the technical knowledge base and can be used in other areas too. Whilst it is difficult to trace back the technical origins of a new local competitor, and to attribute his existence to a particular technology transfer event, it is reasonable to assume that the possession of technology is more likely to enable the creation of a competitor, than is the total absence of technology transfer (Zhao 1995).

Although the transfer of technology alone is often not enough to enable the creation of a new local competitor. This often requires the transfer of management and know-how which Teece (1981) tells us can often not be separated. Technology and know-how assimilation by participation in a JV, for example, also provides information of sourcing of components and materials (Kaiser 1997), and other enabling logistical issues.

The testing of this hypothesis questions whether proprietary knowledge of all kinds is *inevitably* transferred or assimilated over time by a local partner, to a level sufficient for the creation of a local competitor.

H11a Continuing JVs are ones which remain dependent on the foreign partner for proprietary know-how and technology inputs.

The gradual loss of influence over the internal operations of JVs to local partners, who simultaneously seek to assimilate the foreign partners' technology and know-how (Rondinelli 1993), substantially weakens the position of the foreign partner within the JV. Continuing JVs are ones which maintain a dependence upon the foreign partner, as opposed to an independence in the abilities of the local partner. Madhok (1995) observes that conflict between the partners occurs when their value to one another is reduced (especially the value of the foreign partner to the JV), and that such loss of dependence centres on technology assimilation, acquired distribution channels, and learnt management. In defence of their position within the JVs, many foreign partners prefer to retain proprietary inputs and develop their own internal contributions, e.g. by establishing their own sales teams and distribution channels (Bjorkman 1996).

The testing of this hypothesis investigates the extent of JV dependence on the foreign partner, by analysing the extent of critical inputs and the level of localisation.

H11b The retention of brands, components, and formulated inputs ensures income and leverage for the foreign partner.

The previous hypothesis has contemplated the relative balance of dependence between the partners to ensure the continuity of a JV. This hypothesis goes one step beyond mere continuity and addresses the balance of power, and the incidence of retention or loss, which can be used to produce income and leverage for the foreign partner.

Whilst the protection of intellectual property legislation in China is still not ideal, it is possible to contain brand usage within a JV according to the terms of the establishment contract (Lewis 1995). Although an uncertainty exists in Chinese law as to whether a brand is a jointly owned divisible asset upon termination of a JV, even if it has been the sole property and invention of the foreign partner who permitted the JV to use it during his involvement. So it is assumed that strategic protection based upon essential inputs is often better than legal protection. Such strategic protection is usually in the form of essential *enabling* inputs to which foreign partners retain access.

The testing of this hypothesis investigates the extent to which foreign partners retain essential inputs, the level of JV dependence upon them, and the level of conflict within the JV, both in general to signify the level of volatility, and also as directly related to technology transfer / assimilation issues, to signify the need of the partner to acquire an independent level of competence.

H12 An entry motive to access the market size usually fails, although the market which is accessed usually produces JV performance at a high level of the establishment expectations.

JV entry plans are often based upon the dollar-per-person hypothesis (Tai 1988), which assumes a very large market size, and that all of which can be accessed. In reality, however, market access is usually locally concentrated for the many reasons discussed elsewhere in these hypotheses. So any production facility created to address whole market supply would fail. As it is, very few IJVs fail for commercial / viability reasons owing to the numerous and various studies that the approval process requires. It follows, therefore, that the feasibility stage of the planning process assumes a level of market access, and arrives at a feasible size of JV company. Any growth beyond which, on the basis of extended market access, may require a geographically distributed regional strategy, and this would be apparent over the length of operation, performance, and experience, i.e. 'learning by doing' (Kogut 1988).

Given the manifold problems in contemplating serving the whole market from one location in most industry sectors, the measure of access should not be the geographic extent of the JV's achievements, but rather the efficiency with which it addresses the market it has successfully accessed. This hypothesis assumes that the JV design checks and balances, address the issues of JV size, strategy, location / market, product, sector, and other factors, such that establishment expectations are appropriate and moderated and results are achieved.

H12a Market access and performance are frustrated by physical and infrastructural limitations.

Competitiveness is affected by costs in two main ways in China, firstly as a result of the wide dispersal of industry throughout the vastness of China, specialist component manufacturers or sources of raw materials may be very far from the JV manufacturing location. de Bruin & Jia (1993) give the example of the Red Lion DSM Corporation JV whose nearest raw material source was 18 hours away by train. A similar example is that of the Shanghai Foxboro Co JV, whose local cost of one component is three times higher than importing it from the USA, owing to the small quantities required and the high cost of transportation and communications.

Physical limitations i.e. distance, terrain, accessibility, and underdeveloped infrastructure (transportation and communications) have the effect of increasing production costs, and reduce competitiveness (Luo & Chen 1996). The same factors affect the sale and distribution of the product by increasing the cost of sales, thus further reducing competitiveness, which affects sales performance and accounting return.

This hypothesis contends that inherent physical and infrastructural limitations frustrate market access by adversely affecting competitiveness and performance thus forcing companies to concentrate on local markets.

H12b The main impediment to whole market access is politico-economic strategy (i.e. provincial protectionism and regional strategic development.)

Regional protectionism is still prominent in many provinces and this hinders the internalisation and development of distribution channels. Those which were state controlled prior to the 'open door' policy have been liberated somewhat in their product strategies, and they have now accepted the concept of competition. Although the state distribution system still plays an important role in major urban areas, and supply and marketing co-operatives account for a significant market share in rural areas (Tseng et al 1997). The wholesale sector has now also been opened up to foreign JVs, although participation and liberalisation in this area is slow to develop owing to provincial and central government influence and ownership of the established supply routes.

The state 'machinery' which has an interest in supply, also has an interest in local industrial development, which when coupled to the competitiveness that exists between the provinces, for business and for foreign investment, results in regional protectionism of local economies (Seo 1993).

JVs have the opportunity of accessing regional markets on the back of central government projects, given that some of their products are unique, and that some of their partners are national infrastructure project suppliers. So they benefit from the vertical integration within their local partner, although in all cases this is a very small part of their business, e.g. IBM have overcome the impediments by partnering with China State Railways, whose interests are implicitly national and transcend local impediments.

The testing of this hypothesis explores the impediments to market access which result from local politico-economic interests, by analysing the level of access achieved, and the variety of strategies employed.

H13 JVs formed at the provincial level in partnership with local entities attract less attention from the authorities.

Control in many non-essential sector state companies has been passed to the regional / provincial authorities, to enable them to develop integrated local development strategies (Tse et al 1996). These local authorities have the multiple interests of promoting and protecting the local economy, and of rehabilitating and advancing its industries. A key strategy in industrial regeneration is by encouraging foreign partners to form JVs with such local companies and there is considerable competition between local governments to acquire foreign investment. But what the provincial authorities offer varies only in the areas which come under their control (Hussain & Zhuang 1997, McMurray & Woetzel 1994). They cannot, for example, offer JV contract terms beyond those laid down by central government statute, (i.e. the Joint Venture Law 1984), nor can they negotiate terms which go beyond the terms laid down by MOFTEC. However, they frequently offer preferential terms of access to local contracts, services, utilities, and all the pricing, raw material access, tax allowance, and labour, which basically amounts to protectionism, to protect employment and tax revenues (McMurray & Woetzel 1994).

Whilst provincial and regional authorities cannot substantially alter the basic components of a JV contract, they do offer a minimum of authority interference in the business, flexible and lenient terms which they claim can only be handled at the smaller local level (Pan & Parker 1997), and they avoid the scrutiny and experimentation that a central government contracted JV can come under during inter-departmental wars. 95% of JVs in China involve a total investment of less than US$5m, which is the limit at which decisionmaking is decentralised, and for which flexible terms / packages are available in the regions (Beamish & Wang 1989).

This hypothesis proposes that JVs made at local level attract less attention, scrutiny, and experimentation, and benefit from local patronage and protectionism.

H14 *"Whatever money is being made by JVs in China is not being made in anywhere near the quantity, or with anywhere near the ease which had been expected."*

Tai (1988) bases the claim around which this hypothesis is framed firstly on the unreasonable expectation that new entrants have of the '$1 per capita' indication of market size, and secondly that environmental circumstances limit the performance of JVs.

Such limitations manifest themselves in two main areas, in unexpected and manifold costs, and in physical, infrastructural and politico-economic limitations to market access. Similar observations have been made by other researchers on related issues, Zhao & Tong (1996), Li (1989b), who deal with economic indications and the achievements of indigenous businesses / partners, and Luo & Chen (1996) who discuss industry structure and strategy. Tai (1988), however, identifies the limitations as being the lack of protection of JV established businesses in that the government continues to permit the importation of similar products, which Tai (1988) claims contradicts a major plank of the government's stated strategy of import substitution by the encouragement of foreign investment. Although the government points to the importance of WTO membership which requires the freedom of access to its markets, the 'red tape' bureaucracy which causes delays, arbitrary charges, and frequent policy and regulatory changes, the foreign exchange balancing requirement (which has been changed recently, although not removed entirely), and the welfare, pensions, housing and other charges which inflate labour costs.

This hypothesis is tested on the basis of inputs related to business growth and income generation, and also those which relate to costs and overheads. The hypothesis is taken one step beyond Tai (1988), in that a comparison is made with the performance of JVs in other developing countries, to identify whether shortfalls in performance are attributable to 'China factors'.

H15 China's cultural traditions suggest that relationships between customers and suppliers may be more important than they are in western markets. The prevalence of 'Guanxi' suggests that sales force marketing has a positive impact on profitability.

The importance of 'Guanxi' in China's cultural traditions suggests that relationships in business are more important than in western societies (Lockett 1987), and that buyer behaviour is based upon Confucian principles of thrift and asceticism (Rowley & Lewis 1996). Whilst the Chinese concept of 'face' may encourage consumers to buy the best product, because Chinese culture ranks everything hierarchically (Wong 1995). We can infer from this behaviour that cultural influences are more important features of a Chinese consumer's life than they are to the western counterpart. Of course, this may result from the new-found novelty effect of being able to obtain by selection at a level beyond subsistence, which was the case prior to the liberalisation of the economy. If this is the case, then 'Guanxi' is likely to be even more important than it would normally be, although it has been found that 'Guanxi' is sufficiently important to be positively related to sales force marketing and company performance (Luo & Chen 1996, Lockett 1987, Wong 1996, Strange et al 1997, Speece & Kawahara 1995).

The testing of this hypothesis questions whether 'Guanxi' is a prevalent consideration of the case study subjects hereto, and whether it indicates strategy, e.g. sales force marketing.

H16 R & D intensity varies by industry partner operation length, and has a minimal positive effect on JV performance, and a negative effect on accounting performance.

Operating duration has been found to have a significant effect on all performance measures, and this it is suggested, results from 'learning by doing' (Kogut 1988). There is some relationship between these findings and R&D, which is also a learning process eventually intended to produce an improvement to the business. Time seems to play an important role in this hypothesis, because R&D and learning by doing, i.e. experience, all take time to acquire. Luo & Chen (1996) find that R&D intensity has an insignificant effect on JV performance in China, although it does have a negative effect on accounting performance. The relatively short-lived existence of JVs in China probably explains this, because it is in the nature of R&D and experience acquisition that both activities take time, and that in both cases expenditure is made before returns are generated.

It is also suggested that it is in the nature of R&D, that it is more intensive in some industries than others, e.g. in fast moving highly technical industries, than in other long standing proprietary formula dependent high level investment businesses. So there would appear to be a relationship between R&D intensity / operation length / industry structure / partner selection.

Rondinelli (1993) finds that as part of the local partners' efforts to maximise control over JVs, there is also a drive towards the acquisition of the foreign partner's technology. Many foreign partners retain critical components of production or technology to retain an essential input to the JV, but there is often contractual or authority pressure to transfer technology, and to jointly engage in R&D to develop products and adaptations for the China market. Foreign partners often agree to joint R&D to avail themselves of the incentive benefits afforded to high technology companies.

This hypothesis involves 3 important issues in this area (a) the effect of industry, partner and operating duration on the incidence of R&D, (b) the effect of R&D on JV performance and (c) the effect on JV accounting performance.

H17 JV size has a positive impact on local market performance.

Glaister & Wang (1993) found that UK firms sought Chinese partners with the ability to negotiate with the host government and related businesses, having appropriate financial status or resources, and having an established marketing and distribution system. These attributes in China would be typical of a substantial company, and given the government contacts and distribution system required, perhaps an SOE. A JV formed with an SOE and intending to have an impact on the local market would have to be a reasonable sized company, just to be able to service the market. However, a company which is able to supply and service a large market, need not necessarily acquire a commensurable share of the market. After all China's SOEs are among the largest companies in the world, yet their market share is often less than 10% (de Bruin & Jia 1993/94). Speece & Kawahara (1995) observe that large size should not be mistaken for business competence. So we can safely say that size alone does not have a positive impact on local market performance.

Although there is strong evidence in the findings of Luo & Chen (1996), that performance is positively correlated to JV size, which Kogut & Singh (1988) explain results from the ability to benefit from economies of scale and scope, and investment in advanced technology. Shan (1991) goes further in suggesting that these benefits and investments are necessary if a JV is to outperform local firms. Lyons (1990), Welch (1992), find that JVs need to have a critical mass to be able to engage in business on all fronts. Harrigan 1988 and Kogut & Singh (1988) have demonstrated that the size of the JV as related to the size of the foreign firm is the most important factor as it affects entry mode and JV performance. Tan & Lischert (1994), Child (1994), Lawrence & Lorsch (1967), Thompson (1967) suggest that the strategy, structure, and process of a JV must fit the environmental circumstances, and that these conditions may change over time, which suggests that the design and size of a JV should start with sufficient critical mass to engage in business with full competence and expand according to its achievements.

The testing of this hypothesis compares the case study JVs' sizes with their performances across a broad range of measures e.g. sales, profitability, ROI, staffing, promotional expenditure, and market access.

H18 The age of a JV and the duration tenure of the investment are correlated to JV performance.

The age of a JV has been found to be an important factor in JV performance, as earlier established JVs are more likely to have gained valuable experience and access to scarce resources (Luo & Chen 1996), prime locations, developed distribution channels, refined pricing strategies, established products. Early entrants may have filled the best niches, acquired the best partners and negotiated advantageous terms, and all these factors can affect the long/short term viability of JVs (Geringer 1991). Kogut (1988) goes further in suggesting that the length of operation is significant for all performance measures.

JV period is perhaps a more important factor in influencing strategy because as Luo & Chen (1996) report, learning in unfamiliar environments is more urgent the shorter the tenure of the JV. So shorter duration JVs are more risky because it is progressively less likely that sufficient return can be generated at its full potential, and this at a time when investments in developing countries are increasing, as are profit lead times. Shorter duration JVs do not encourage large risk investments in funds or proprietary inputs, they do not encourage R&D owing to the long recovery period, and they are rarely useful as parent company assets owing to the known high rate of depreciation to be carried in the investor's books.

The testing of this hypothesis examines the influence that JV age has on performance, i.e. at which stage of development the JV is in, and how its performance has developed as compared to less developed JVs. Also from the perspective of investment and strategy and how these are influenced by the tenure of a JV, and the influence that this factor has on performance.

H19 There is an interaction between pricing strategy and length of operation.

It is claimed that price is not amongst the most important factors in winning sales in China. Strange et al (1997), and McGuiness et al (1991) say that these are *product quality*, *promotional effort*, and *quality of service*, and that price cutting and special offers do not appear to be the best way of influencing customers. Yet other researchers disagree in describing the Chinese consumer as being frugal and ascetic (Rowley & Lewis 1996), and that he is value conscious and price sensitive (Luo & Chen 1996). Furthermore, Mahatoo (1990) found that Chinese consumers tend to value low cost over other product attributes.

Length of operation has been found to be correlated to all performance measures, and this has been reinforced by analysis of the effectiveness of advertising, which has been found to be more effective on established products in China. The same research has shown that established JVs are more successful because they have acquired experience and refined their strategies, including those relating to prices (Luo & Chen 1996). It is suggested that there is a clear link between pricing and the product life cycle, and this may coincide with the findings of other researchers who propose that strategy, structure and process must fit environmental circumstances, and that these conditions may change over time (Child 1990, Lawrence & Lorsch 1967, Thompson 1967). This suggests that pricing strategy is an evolutionary process, which can only result from length of operation.

This hypothesis seeks evidence for a linkage between pricing strategy and length of operation, and does so by analysis of changes in price levels from the perspective of cause i.e. was the reason strategic, environmental, regulatory, competition driven, market share tactical?, and so on.

H20 Industry sales and profitability growth has a positive influence on IJV accounting return and domestic sales growth, and a negative impact on IJV exports.

When an industry is growing, domestic sales increase, as do JV profits. It has been found, however, that this occurs at the expense of exports, the suggestion being that JVs prefer to concentrate on domestic business (Luo & Chen 1996, Bass, Cattin & Wittink 1978, Newfarmer & Marsh 1994, Willmore 1994, Luo & Tan 1997). JVs often blame low export achievement and their failure to meet export target levels upon product quality, although this has been noted to occur at a time of high levels of domestic demand. The interaction of strategy and ROI with sales growth acts as a 'moderator' in directing the development of the business (Sharma et al 1981), although the wider strategy of the company must also play a role based upon its original entry strategy. For example, a globally integrated company may have a measure of exports as central to its strategy, whereas those entering with a local market access strategy may not intend to export. Shan (1991) suggests that the location specific advantages sought drive the strategy towards exports, in that US and European firms tend to concentrate on the domestic market, presumably because they acquire location advantages far removed from their domestic levels, whereas regional firms tend to 'finish' products and to export or re-export them, to gain marginal competitive advantage in highly competitive regional markets.

The testing of this hypothesis involves an analysis of business growth domestically as compared to exports, the achievement of domestic sales targets as compared to exports, the market entry motive, the stage of development of the JV, and profits performance.

H21 JV performance in China is correlated to the level of synergy derived from the complementarity between the partners.

If the benefits deriving from joint efforts, minus the transaction costs specific to the formation and operation of the JV, remain greater than the sum of those benefits from exploiting firm-specific advantages separately, an IJV creates 'synergies' and enhances economic rents to the partners (Hennart 1991). Partner contributions to JVs need not be either different or absent components of either partners' assets. Inputs could be the same, or perhaps at a different stage of development, and they need not be hardware, unique brands, or designs. Valuable JVs can be created by the co-operation of competitors of equal competence, provided that both benefit in some measure by the association with the other party, and thus producing synergies, i.e. the results of interactions which would not take place in isolation. Such synergies can take the form, of risk reduction, economies of scale and scope, product rationalisation, convergence of technologies, and better local acceptance (Harrigan 1988, Parkhe 1993).

Synergistic effects are greater, the greater is the complementarity between the foreign and indigenous firms. Hence in a host country with unfamiliar culture and political and economic systems, an investing company is more likely to cooperate with an indigenous firm, which has unique industry or firm specific skills, and advantages that are costly to duplicate (Hamel 1991, Parkhe 1993). An effort by Tromsdorff & Wilpert (1991) to identify the success factors of JVs in China hierarchically, reveals that the 3 most important are *'true co-operation'*, *'both sides have the same co-operation objectives'*, and *'management and good leadership skills'*. So it is clear that important synergies between partners in JVs in China can be based in the area of co-operation, and not only in buildings, machines, and products. Partnerships which maximise on synergies can often determine the difference between profitability and perpetual losses (Speece & Kawahara 1995).

This hypothesis is investigated by evaluating the incidence of advantages / synergies produced within the JV, e.g. in the area of the respective motives of the partners, their respective expectations, the nature of the local partner and the effectiveness of his inputs / and conversely for the foreign partner, the ongoing level of dependence of the JV on the partners, and the area and the level of conflict.

Summary

The above hypotheses are drawn from the literature inducted into this research and reflect the breadth of coverage. They are drafted as structured problems, with an outline of the research basis from which they are drawn to evidence their relevance. The majority of propositions have been identified on the grounds of the frequency with which they appear in the literature, and a few on the grounds of their importance to the main thrust of this research. A correlational design of the hypotheses is inevitable and this is beneficial to the research in enabling a cause and effect analysis, which produces results having depth, reliability, and greater interaction with other characteristics of JVs in China.

Chapter Six

Research Methodology

Joint Ventures in China are complex structures owing to the highly regulated environment in which they operate. As a result it is not possible to study any one facet in isolation, and any research methodology must be able to operationalise a large number of influences simultaneously. This Chapter identifies the qualitative and quantitative inputs required for this research and the techniques of data acquisition, operationalisation, and analysis. Whilst this research is inevitably *causal* it is broadened to include *exploratory* and *descriptive* characteristics, which are made possible by the variety of data inputs. A number of hypotheses are developed into contentious and uncertain areas, and these are tested for prevalence, and cause and effect, against a phenomenological i.e. quantitative analysis of inputs, and against a large data matrix of wide ranging information on the JV case study sample. A variety of statistical and correlational analytical techniques are identified in this Chapter and used in Chapter Seven to define conclusions which are presented in Chapter Eight as *results* of the testing of the hypotheses, and also as *implications* of existing circumstances and future trends.

A review of the methodologies used in the literature hereto supports the claim in the introduction to Chapter Five, that few research papers have used methodologies which delve empirically into the issues involved. It is found that within a sample taken from the 128 items of literature on IJVs in China cited herein, that 47% used a specific empirical methodology amongst which only 19% of the sample used a significant sample size, e.g. Fukuda (1987), Adler et al (1992), Stewart & Keown (1989), Eiteman (1990), Hu et al (1992/2), Black & Porter (1991), Tan & Litschert (1994). 8% of the sample used archive data which whilst being of sufficient size, it was not specific to the case, and 17% used inducted data, reported statistics, case studies, or non-significant sample sizes, as in the examples cited in Chapter Five Section 3 *Ownership and Control*, and in Swierczek & Hirsch (1994), de Bruin & Jia (1993/4), Zhao (1995), Rondinelli (1993), Au & Enderwick (1994), and Yan &

Gray (1994). The balance 53% of the sample used methodologies involving secondary, case specific, environmental, or purely qualitative data e.g. Kirkbride & Tang (1990), Lockett (1987), Tai (1988/1), Yan (1994), McMurray & Woetzel (1994), Goldie-Scot (1995), Shaw & Meier (1993), Speece & Kawahara (1995), Overholt (1995), Ostroff (1995), Keqian (1993), Davies (1994), Zhang & Yu (1994), Leung (1993), Rowley & Lewis (1996), Tsang (1996), Kaiser et al (1996), Zhao & Tong (1996). Nevertheless, this research methodology takes all of these research findings into consideration when formulating the hypotheses, irrespective of their internal validity, given that they are validated or not during the hypothesis testing process.

1. General Management Research Methods.

There are two main pivotal characteristics around which most organisational research revolves. There is the quasi-scientific approach which involves the systematic analysis of data, i.e. a *quantitative* approach aimed at solving a predetermined research problem. Typically such methodology starts with a theoretical premise which leads to a deduction from which a hypothesis is formulated, which in turn requires that the concepts / data involved are translated into measures, or codified and analysed. The interpretation of findings results in the induction of information which is related back to the original theory or research problem.

However, not all research data can be quantified efficiently or significantly, and thus lends itself to the other major research orientation which is *qualitative*, in that it is descriptive and interpretative of the circumstances. The selection of which orientation is most appropriate is largely governed by the nature of the inducted data. Quantitative methods are most appropriate where such data consists of information which is numerical, value based, can be measured, or where descriptive data can be codified. Qualitative methods are most appropriate where the input data is largely founded upon observation and interviews, and the analysis is of a large number of degrees of difference, or of the interaction of variables where the analysis is descriptive of the degree of influence (Easterby-Smith et al 1991, Ghauri et al 1995).

Seven main characteristics of qualitative research are compared with quantitative methods (Bryman 1989 p 139 based upon Smircich and Morgan 1982), to suggest that :-

1) *interpretation* is much less central to quantitative research.
2) similarly with *context* (Gordon 1985), although the relevance of variables i.e. the context in which they are inducted is paramount in quantitative analysis.
3) quantitative research tends to be *static*, whereas qualitative methods can accommodate and explain change.
4) quantitative research tends to be more *rigid* than qualitative methods which can embrace wider cause and effect bases as commended by Glaser and Strauss (1967).
5) quantitative methods tend to use single or *few data sources*, whereas qualitative methods are better able to include a wide variety of data types.
6) quantitative methods treat data as scientific norms, whereas the alternative view is that of a '*negotiated order*' (Strauss et al 1963).
7) the two methods also differ in terms of researcher proximity, with the quantitative researcher most distanced, and the qualitative researcher having a more hands-on contact, which enables him to update his research and also to gather exploratory data over time.

The nature of the research tends to dictate the research design, i.e. the structure and orientation of the investigation, and the methods of data acquisition. Figure 6.1 lists the most commonly used research designs and methods :-

Figure : 6.1

Chief Research Designs and Methods in Organisational Research

	Designs		Methods
D1	Experiment (major distinctions : laboratory and field experiments ; experiments and quasi-experiments).	M1	Self administered questionnaire
D2	Survey (including longitudinal survey design).	M2	Structured interview
		M3	Qualitative research
D3	Qualitative research.	M4	Unstructured interview
D4	Case study	M5	Structured observation
D5	Action research	M6	Simulation
		M7	Archival sources of data.

Bryman 1989.

Early organisation research tended to be more quantitative, with qualitative research becoming more prevalent in the 1970s and 1980s. Although entirely qualitative research has never been dominant in this field, for example, research into 193 studies published in 5 major journals in 1985 (Podsakoff and Dalton 1987), found that few were based solely upon qualitative investigations, with not one being based upon participant observation alone (Bryman 1989).

The increasing accessibility of data and information, and the widespread availability of statistical and analytical tools enables the consumer of research to test findings more readily. Current research tends to be supported and evidenced by a measure of quantitative analysis, and whilst most researchers emphasise one or the other, both methods can be combined and used in the same study (Ghauri et al 1995). It is also claimed that the two approaches are complementary and cannot be used in isolation from each other (Jones 1988, Martin 1988, Jankowicz 1991). Figure : 6.2 outlines the differences in emphasis between the two methods :-

Figure : 6.2

The Difference in Emphasis in Qualitative versus Quantitative Methods

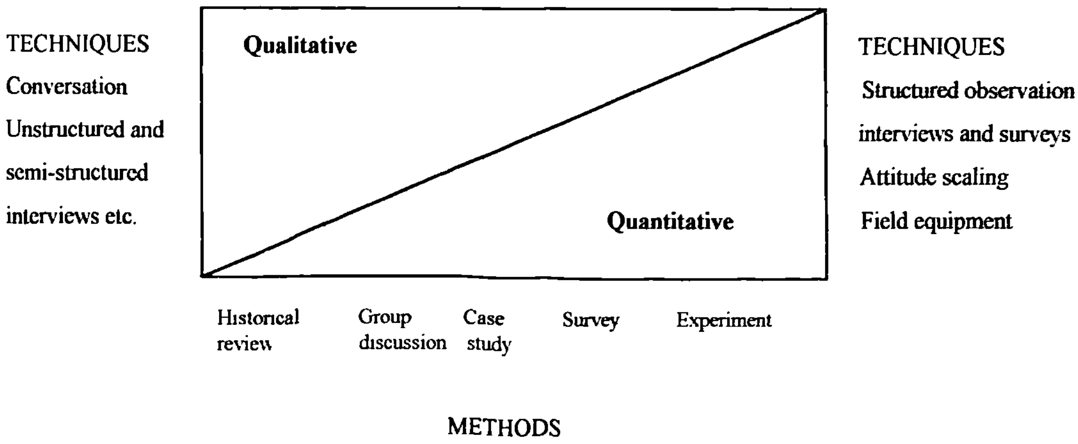
Qualitative Methods	Quantitative Methods
• Emphasis on understanding • Focus on understanding from respondent's/informant's point of view • Interpretation and rational approach • Observations and measurements in natural settings • Subjective 'insider view' and closeness to data • Explorative orientation • Process oriented • Holistic perspective • Generalisation by comparison of properties and contexts of individual organism	• Emphasis on testing and verification • Focus on facts and/or reasons of social events • Logical and critical approach • Controlled measurement • Objective 'outsider view' distant from data • Hypothetical-deductive; focus on hypothesis testing • Result oriented • Particularistic and analytical • Generalisation by population membership

Source : Ghauri et al (1995) based upon Reichart and Cook (1979).

So whilst it is suggested that no method can be entirely quantitative or qualitative, the techniques applied within the method can be of either orientation. Figure 6.3 illustrates this further :-

Figure : 6.3

Qualitative and Quantitative Methods and Techniques



Source : Ghauri et al (1995) based upon Jankowicz (1991)

2. *Methodologies in JV Research*

Studies into JV research generally fall into four main categories, (a) those which deal with *JVs as a strategic posture*, i.e. JVs as market entry, expansion, globalisation, divestment, and advantage vehicles, (b) those which appraise *JVs from a risk benefit perspective*, i.e. technology dissemination, market access, capital recovery, third markets, and organisation, (c) those which evaluate the *efficacy of JVs* in the case of a given set of circumstances, i.e. performance evaluation, ROI, stability, negotiation, and (d) those which concentrate on the *characteristic features of JVs*, conflict, culture, management and control, partner selection, sectoral, size, organisational learning, and host / guest / location specific issues. The above structures are generally in line with the subject analysis of the literature reviewed in Chapter Four, with the format of study in this section, as outlined above, being similar to the review of research into JVs presented in the introduction to Chapter Two.

Generally speaking, these four categories are broad based and become progressively more specific from (a) to (d), and similarly the methodologies are more various, and usually qualitative, in broad based studies, and more specific and usually quantitative, in more pointed studies. For example, Bleeke and Ernst (1995), Berg et al (1982), Buckley and Casson (1987), Connolly (1984), Hambrick (1983), Harrigan (1984) (1985), Kogut (1988), and Tallman and Shenkar (1994), variously comment on JV divestment, endgame strategies, formation, life cycle, market entry, partner characteristics, structure, and theory. Most of which is broadly based work as in (a) above, and is predominantly qualitative with occasional quantitative data to provide example and perspective.

The body of work which studies JVs from a risk / benefit perspective as in (b) above, necessarily includes more concrete data, for example, Arrow (1985), Cartwright and Cooper (1989), Contractor and Lorange (1988), Finnerty et al (1986/2), Hagedoorn (1993), Janger (1980), Killing (1982) (1983), Longfellow-Blodgett (1991), Lorange and Probst (1987). Morris and Hergert (1987), have researched issues dealing with the respective positions of the parties, success factors and risks, organisation, and collaboration. This category of work is largely qualitative, although as the scope is becoming more focused the methodology begins to support the study with quantitative example data.

As researchers address the issue of JV performance and efficiency, their methodology becomes evaluative in e.g. ROI and costs, which inevitably involves more quantitative analysis. Although a strong qualitative element remains owing to the fact that closely related issues such as stability, negotiation, mistakes and contractual factors influence findings. Chowdhury (1992/2), Christelow (1987), Contractor (1984), Cravens et al (1993), Gomes-Casseres (1987), Inkpen and Birkenshaw (1994), Longfellow-Blodgett (1993), Lyles (1987), Svejnar and Smith (1984), and Woodcock et al (1994), have variously acquired input data along these lines by way of secondary sources, dedicated databases, surveys, research reviews, journal reports. Research orientation in category (c) tends to be both qualitative and quantitative, with a measure of data analysis providing definitive inputs, rather than the simple inferential inputs of example quantitative data of the more general studies of sections (a) and (b).

In the mature phase of research when the initial work has already provided a conceptual perspective, researchers delve into the intricacies of a subject. In this case as in (d) above, the focus of research tends to narrow and to study features in greater depth. There is also a reservoir of experience to tap by way of case studies and surveys, which facilitate a greater quantitative input for the formulation and testing of hypotheses. The availability of experience data also provides data with which to support and substantiate findings. The result is a gradual leaning towards a more quantitative scientific approach and away from a largely theoretical and descriptive one.

Examples of such a trend in the case of JVs can be seen in the work of Beamish (1985), Buffington and Farabelli (1991), Dussauge and Garrette (1995), Fagre and Wells (1982), Franko (1987), Geringer (1991), Hamel (1991), Harrigan (1986) (1988a), Hebert and Geringer (1993), Holton (1981), Ingham and Thompson (1994), Inkpen (1996), Kent (1991), Kobrin (1988), Konieczny and Petrick (1994), Koot (1987), Lall (1985), Lichtenberger and Naulleau (1993), Lyles (1994), Madhok (1995), Nigh et al (1990), Otterbeck (1981), Schaan and Beamish (1988), Schaan (1988), Shenkar and Zeira (1992), Swierczek and Hirsch (1994), Weijan and Hamilton (1991), Welch (1992), and Woodside and Pitts (1996). Who have concentrated on features of JVs such as those in (d) above. Their data has been acquired by way of surveys, case studies, databases and other sources all of which are examples of a mature research environment, and much of their work has gone beyond the simple quoting of existing statistics, into the area of case specific quantitative research results. The result being largely a descriptive basis of research supported and evidenced by a variously significant quantum of quantitative data.

3. Methodologies in Research into JVs in China

The early research into JVs in China was done in the 1980s, and was dominated by the prospects offered by the advent of a huge new market. However, as Chinese legislation restricted market entry sectorally, and required a participative and an internally and externally solvent base, then researchers focused on the investment methods, structure of JVs, regional differences, performance, finance, market evolution, success factors, strategies, infrastructural issues, and the risks involved. The methodologies used by such researchers as Beamish and Wang (1989/1), Lockett (1987), Luo and Chen (1996), Ostroff (1995), Plasschaert (1989), Schroath et al (1993, Shaw and Meier (1993), Tai (1988), Tan & Lischert (1994), Tse et al (1996), Van den Bulcke and Zhang (1996), Woodward and Liu (1993), Xuan and Graf (1996) amongst others, have all involved either experience based data, surveys, and case studies, or been based on other published research. However, much of this work has leant towards descriptive and qualitative methodologies largely because of its broad base and strategic nature, although a substantiative element of quantitative data has been included by most authors as a perspective measure.

More intricately focused research into areas such as negotiation, culture, HR, food, law, sectoral, control strategies, foreign stockholder effect, firm size, foreign partner nationality, finance specifics, technology transfer, have been addressed by such researchers as Adler et al (1992), Bjorkman and Schaap (1994), Burrows (1995), Cohen (1995), Davies (1994), de Bruin and Jia (1993), Ding (1993), Eiteman (1990), Graham and Anzai (1994), Harrold and Lall (1992), Hofstede and Bond (1988), Hu et al (1992/2), Au and Enderwick (1994), Kaiser (1995), Kaiser et al (1996), Keqian (1993), Kirkbride et al (1988), Kirkbride and Tang (1990), Lewis (1995), Lowe (1996), Rondinelli (1993), Rowley and Lewis (1996), Speece and Kawahara (1995), Stewart and Keown (1989), Tsang (1994), Tung (1982), Westwood and Leung (1993), Yan and Gray (1994), Yan (1994), Zhang and Yu (1994), Zhao and Tong (1996), and Zhao (1995) amongst others. Such specific focus on a narrow feature requires detailed investigation in most cases, with quantitative data acquired using all the above methods being at the centre of those studies. Including for example, simulation as in the case of Adler et al (1992), who while simulating negotiation puts research on JVs in China into the area of experimentation.

Too much of the existing body of research into JVs in China has been qualitative with quantitative pretensions embodied in referred data. Although the situation is changing, as discussed in the Introduction to this Chapter, in that the passage of time has produced more experience data for researchers to embrace, and this is clear from recent work such as that of Hu et al (1992/2) and Tan and Lischert (1994) which are heavily dependent on quantitative inputs and analysis. Whilst the frequent changes in environmental circumstances spawn further 'first principles' i.e. qualitative research e.g. the current privatisation of the SOEs, there is a sufficiently broad based reservoir of information available to enable the research design herein, to be both qualitative and quantitative and to test a large number of hypotheses.

4. Research Strategy Options

The wide range of issues involved in research into JVs in China produces a large number of variables, which this research is designed to accommodate and analyse. The strategic nature of such work inevitably involves both primary and secondary data inputs, which are both quantitative and qualitative, and which require various comparative, discriminatory and statistical tools to interpret them. The challenge in formulating a suitable research methodology in this case, goes beyond a simple weighted comparison of values and influences, it is to design a strategy which addresses the interrelationship of the variables involved, to determine their effect on one another, and so to develop a series of pointed hypotheses, which can be tested to reveal a 'map' of the strategic environment as it affects JVs in China.

The complexity, breadth and lack of sufficiently detailed empirical research in this area suggests one of two possible strategies, *either* to take a broad view on a shallow but large scale frequency exercise, *or* to concentrate on a smaller number of cases and study them comparatively. The former option is only possible in management research where an adequate quantity of reliable data is available (Easterby-Smith et al 1991), which it is not in this case, and even if it were it would not adequately reveal the external environmental evolution, and the resulting internal JV adaptation which would require study in depth. Such a study would be further complicated by the resulting large number of permutations of cause and effect, such that the study would not provide the clarity or statistical significance which would be the main advantage of a large scale analysis.

An in-depth study into a group of JVs which are selected on the basis of operating similar strategies in some areas and different ones in others, would be more appropriate given the complex interrelationship of structural factors. This would reveal both which strategies are *evolved* i.e. responsive and compliant adaptations and thus those which might not be a contemporary first choice, also which are *creative and developmental* and thus what are the indications for a variety of industries. Such detailed analysis would show the importance of structural integrity across all facets of JV design in China, and this would reveal a much more valuable insight than would a simple ordinal listing of characteristics. Critics claim that smaller in-depth studies risk corrupting their findings with case specificity which makes them unrepresentative, although unique factors are identifiable in in-depth studies and the analysis can be adjusted accordingly. A simple ordinal listing of factors of success or failure observes only the current status of JVs, and does not allow for evolved positions which might not be a current first choice.

JV success is rarely based upon *one factor in isolation*, it usually results from *a number of integrated variables*, and the effect can best be viewed from an in-depth study. Failure, on the other hand, does often result from *one major area of dispute*, and an in-depth study can not only identify these areas, but also balance their cause and effect one against another, whereas a large scale ordinal study would better nominally point to the area of failure than it would identify success, and it would explain the cause of neither. The in-depth case study method 'relies on integrative powers of research : the ability to study an object with many dimensions and then to draw an integrative interpretation' (Selltiz et al 1976).

5. Research Design and Protocol

Whilst the sum of this research will provide indications as to the opportunities and threats involved in participating in JVs in China, the reader will derive information selectively from the results of the testing of the 21 hypotheses hereto. This indicates the extent of the problem of a research design which embraces so many diverse variables, which in turn requires obtaining information from a wide variety of sources, both of a quantitative and of a qualitative nature. Some of which is secondary data which augments and provides perspective to the primary data, the sources of which depend on the problem, such that how many? or how much? can be answered by archival methods, whereas how? or why? are best addressed by case study and analytical methods.

It is claimed that quantitative and qualitative approaches cannot be used in isolation from each other (Jones 1988, Martin 1988, Jankowicz 1991). According to this view no research design can be entirely one or the other, although the techniques of data acquisition, operationalisation, and analysis can be. This suggestion is based upon the inevitable complementarity and interaction of data inputs (Ghauri et al 1995), and is evident in the methodology developed for this research. There are three main components to this research design, firstly there is the *inducted information* from previous research derived from the literature which, whilst it is not operationalised into the analysis, provides the basis upon which this research is founded. Secondly there are the *hypotheses* which are formulated from the findings of such previous research, and which are presented as propositions of the circumstances involved in IJVs in China, and finally there are the 24 *Case Studies* which provide experiential inputs, both qualitative and quantitative, and which are investigated using a questionnaire protocol which is common to all the subjects. This inducted data is contained within a computer program data matrix, in which quantitative input *interval variables* are entered as common based values, and qualitative inputs as *nominal*, *ordinal*, *quasi-interval*, or *dichotomous* variables, and are operationalised to test the hypothesis propositions for *incidence*, *frequency*, and *quantum*.

The hypotheses proposed are formed as far as possible as *structured problems*, thus requiring a *descriptive* or *causal research* design, however, given the absence of sufficiently reliable, current, or significant inputs into the research from any one source, much of the work must be viewed as *exploratory*, although only insofar as this provides feedstock to the *a priori* function of what must by nature be a piece of *causal research*. Thus I prefer not to categorise this Thesis according to Ghauri et al (1995) as being exclusively either *exploratory*, *descriptive*, or *causal*. Instead I prefer to consider that it has all three functions sequentially i.e. it is *exploratory* in acquiring data, *descriptive* in putting that into perspective and *causal* in defining the link between cause and effect, which in turn provides the outcome of this research.

6. Data Sources

There are three main sources of input data and information into this research, the twenty four *Case Studies* as detailed in Appendix Three hereto which provide the experiential inputs, the *Literature Review* as detailed in Chapter Four hereto which provides the basis upon which the hypotheses are formulated, and whilst *this information is not operationalised in the analytical regime*, it provides perspective and scale such that the impact of the findings can be evaluated in a '*triangulation*' method, and the often cited *exploratory data* acquired to give comprehensive coverage and 'depth' to the former sources.

(a) The Case Studies

This study involves both statistical and comparative elements, which require both similar and different characteristics of the subjects respectively. A statistical exercise requires a degree of similarity within the sample, and that sample should in turn be representative of the population. Whereas, a comparative study by implication requires a measure of difference within the sample, such that a difference can be observed. The nature of the subjects and the wide range of influences inevitably imposes variety within the subjects, but much would be lost from the study if it were limited to trends deduced from qualitative differences, without the benefit of quantitative inferences derived from a statistical analysis. Such '*multi-methods*' can highlight new issues, and also be used to confirm the validity of data by '*triangulation*' i.e. cross-checking. (Todd 1979).

So a balanced position dominates this research, in that the all important Case Study subjects have been randomly selected, and thus are indicative of the population. Whilst at the same time meeting minimum qualification criteria to ensure that they contain the *valid attributes* of involvement, experience and strategy. No effort has been made to select on the basis of sector or other similarity in the interest of benefiting the statistical analysis, as this would have the effect of devaluing the *comparative* and *general* nature of the study, by placing the characteristics of the

Case Study subjects at the centre of the research, whereas the pivotal issue in this research is JVs in China.

The main variables involved in this study are derived from the following 'qualifying' characteristics :-

1. Equity participation.
2. Shareholding.
3. Both partners have contributed some funds.
4. The JV is a stand alone business.
5. Foreign partner has some management involvement.
6. Technology / Know-how transfer.
7. Product / Brand transfer.
8. Local competition exists.
9. Royalties / License Fees accrue to the foreign JV partner.
10. Export / Foreign Exchange balancing is required.
11. Foreign JV partner has some input into local marketing mix strategy
12. Sales and Distribution is the responsibility of the local partner.
13. Whole market access motivated JV entry.
14. Foreign JV partner has other international involvements.
15. Local JV partner is an SOE.
16. The JV has more than a 2 year operational history.

The above characteristics are common to the majority of foreign participated JVs in China, and they highlight reported areas of *strategy concentration* and *conflict*. The hypotheses tested herein are formulated to involve one or more of these characteristics. Whilst the case study subjects have not been selected on the basis of possessing *all* of these characteristics, companies having a limited or specialist involvement, such as those involved in one-time projects, are the exception and not the rule, and are excluded from this *comparative case study*.

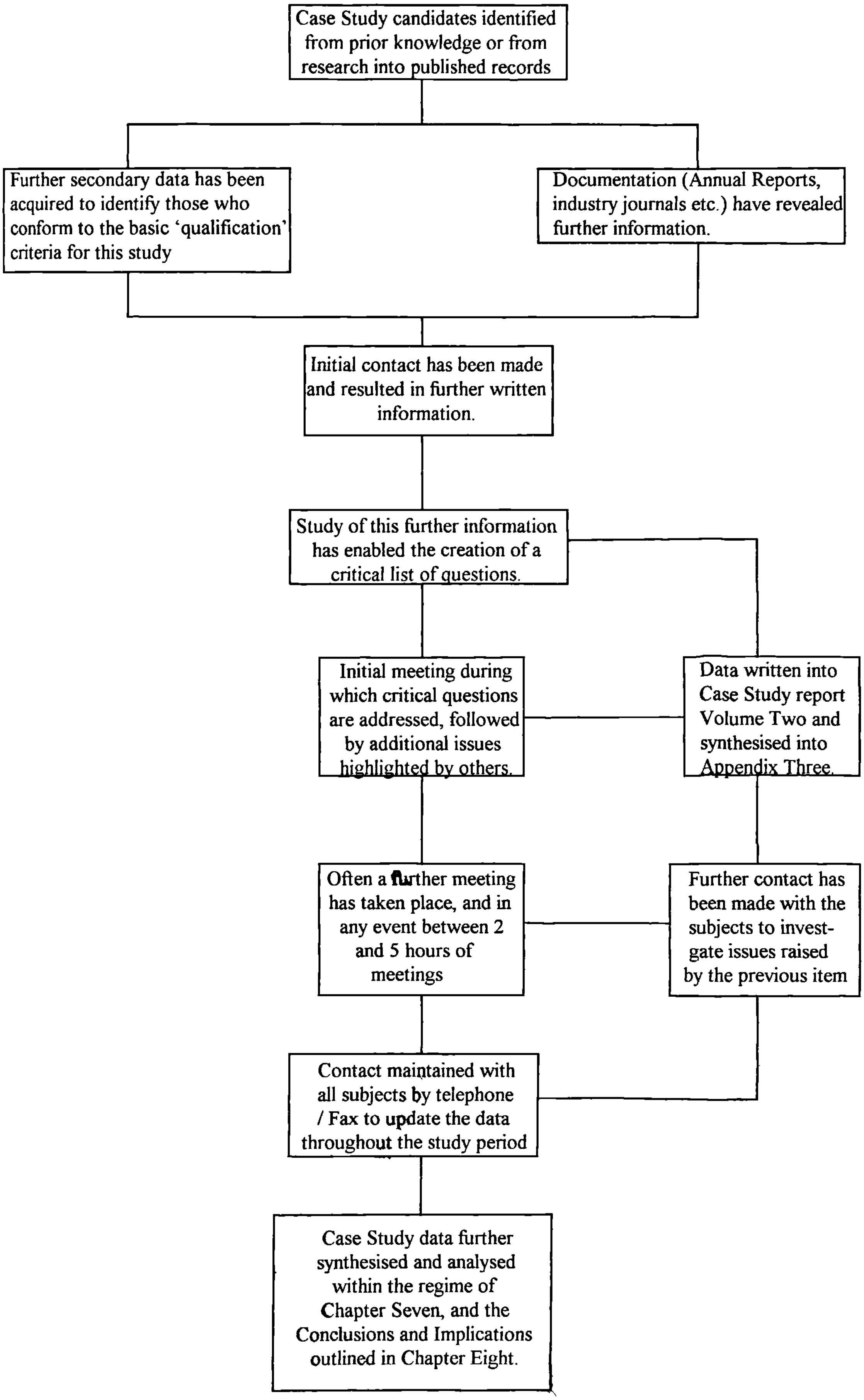
The number of case studies used is a much disputed issue amongst researchers. Generally the arguments posed are two dimensional, there is the 'maximalist' school which looks for significant frequency from a limited view of a large database, which in my view would produce as many questions as answers in this research, which seeks to identify cause and effect. Then there is the 'minimalist' school which suggests that only one case is sufficient provided the 'study is thorough and looks for multiple implications' Mintzberg (1979) Campbell (1975). This strategy would also produce many questions and preclude any comparisons from being made within the data.

There is a third dimension in which a sufficiently sized group of case study subjects, all produce data on a sufficiently diverse number of factors and variables e.g. in those areas listed herein as 'qualifying' characteristics, and that as the hypotheses tested in the study each involve all of the subjects and several of the variables, then the matrix of data is very large, despite the fact that the total number of case studies may not be a significant proportion of the total population. This research includes a case study inputs validation exercise (see Chapter Seven), by which the 24 case studies' data on a number of commonly reported issues, is checked against reported data for errors and outliers. Any effort to increase the number of case studies, and therefore, the volume of variable inputs, progressively increases the workload exponentially, thus there is a critical manageable number of inputs. Multiple case study methods using multiple variables, such as this research, are known as 'Type 4' research designs (Yin 1989), the 'work' in which research method is analysis and comparison, and the *'comparative case study'* methodology is preferred because it :-

- enables the testing of numerous hypotheses based upon their applicability to numerous companies and thus produces more reliable findings.
- enables extreme hypotheses to be easily compared and contrasted.
- enables new and important situations, especially those rarely studied previously to be identified and easily assimilated.

The 24 Case Study candidates have been identified as participating in China and the data has been acquired as follows :-

Figure 6.4 Structure of Data Acquisition Process



The interviews have been variously conducted with the 24 subject Companies in a semi-structured style, owing to the flexibility required to delve into the variety of strategy adaptation. Structured interviews would seek and acquire the same data on each case, and risk missing the causes for the differences between them. Unstructured interviews, on the other hand, tend to produce attitudinal and value laden material which tends to be a diversion from the point. The subject interviews have been semi-structured such that they are flexible in delving for cause, whilst keeping on track by way of a minimal 'task list', the constancy of which assists in the difficult problem of the codification of in-depth interview data. This strategy places the interview strategy midway between the exploratory and the inductive nature of the work.

Several of the interviews / discussions have been repeated owing to the long period of this research, with a period of two years between interviews e.g. *Alpha, Gamma, Delta, Eta, Ni,* and *Sigma.*. In other cases where a long period has elapsed, contact has been maintained, during which period data has been updated from published data, and up to date questionnaire input has been obtained. Table 6.1 *'Summary of Case Studies'* outlines the case study period, the level at which contact has been made, the fulfilment of the common questionnaire requirements, the various sources of supporting information, and the extent of the discussions. The semi-structured nature of discussions have focused upon issues raised by responses to the wide ranging questionnaire, and have mainly been investigative thereof.

Table : 6.1

Summary of Case Studies

Case Study	Date of Contact / Interview	Data Matrix Code	Nationality of Firm	Industry	Contact Level	Questionnaire	Supporting Information Source
'Alpha'	1995 & 1997	1	UK	Fire Fighting Equipment	Director	Yes	In-depth discussion / Interview Published data
'Beta'	1995 & 1997	2	UK	Construction Materials	Director	Yes	In-depth discussion / Interview / Published data
'Gamma'	1996 & 1998	3 to 8	UK	Chemicals & Fibres	Director	Yes	In-depth discussion / Interview / Published data
'Delta'	1997	9	UK/Swiss	Oilfield Eqpt.	Director	Yes	In-depth discussion / Interview
'Epsilon'	1996 & 1998	10 & 11	Taiwan	Flour/Foods	Director	Yes	In-depth discussions / Interview / Research data.
'Zeta'	1996 & 1997	12	Japan	Engineering Equipment	Area Manager	Yes	In-depth discussion / Interview / Research data
'Eta'	1996 & 1998	13	UK	Gases	Area Manager	Yes	In-depth discussion / Interview / Published data
'Theta'	1996 & 1998	14	UK	Snack Foods	Director/Consultant	Yes	In-depth discussion / Interview
'Yiota'	1997 & 1998	15	Germany	Industrial Presses	Director	Yes	Interview
'Kappa'	1997	16	Germany	Electrical Sensors	Director	Yes	Interview
'Lamda'	1997	17	USA	Oscilloscopes	Director	Yes	In-depth discussion
'Mi'	1997	18	USA	Optical Prods.	Director	Yes	Interview
'Ni'	1996 & 1998	19	UK	Textiles	Director	Yes	In-depth discussion / Interview
'Xi'	1997	20	Germany	Power Cables	Director	Yes	In-depth discussion
'Omicron'	1997	21	USA	Electronic Control Devices	Area Manager	Yes	Interview
'Pi'	1996 & 1997	22	USA	Drinks	Director	Yes	In-depth discussion
'Rho'	1997 & 1998	23	UK	Advertising	Director	Yes	In-depth discussion / Interview
'Sigma'	1996 & 1998	24	UK	CD Products etc.	Director	Yes	In-depth discussion / Interview

(b) Published Data

Most of the literature reviewed herein has been acquired by *'trawling'* (Easterby-Smith et al 1991) which has produced over 250 books, journal and periodical articles, academic papers, theses and dissertations, government publications and data from bodies such as the Dept. of Trade and Industry and the British Embassy in Beijing and other Countries' embassies, trade promotional bodies such as the China - Britain Trade Group and The Institute of Export, library facilities e.g. ABI/Inform CD ROM databases. These sources have produced *'fishing'* opportunities of research done in other relevant studies. Most of the above are listed in the Bibliography hereto, and have been reviewed by me in detail and conceptualised into Chapter Four, to (a) *frame* the research, (b) *identify* the relevant concepts, methods, techniques and facts, and (c) to *position* the study to produce an insight into the subject, and to provide a validation basis from which to assess the credibility of the findings, as recommended by Ghauri et al (1995).

The inputs obtained from published data are wide ranging, as is evidenced within the Literature Review (Chapter Four), the Bibliography, and the Hypotheses Formation section of Chapter Six, and are used mainly to provide research focus, direction, and information inputs. The published data inducted into this research is wide ranging to ensure comprehensive coverage of the subject, and includes JV specific information, across a broad front i.e. experiential, environmental, strategic, and case specific, which is sourced mainly from academic, government, and authoritative research work. Such inputs influence many facets of the research process including the formation of the hypotheses, the design of the data matrix, the design of the questionnaire, and the analytical regime. The majority of this data provides a scale and strategic variety perspective to the research, and also a historic view within which to consider the changes in the subject case study characteristics over time, given the changed circumstances from those under which they were established.

(c) Exploratory Data

This research is *correlational* as between the primary data and the secondary data, which are assumed to be *comprehensively characteristic* and *sufficiently well* *targeted* respectively. Information is not always available within primary or secondary research, or even in the most pointed case study regimes. It is often necessary to enhance the reliability of findings by way of ad hoc exploration to increase the input variety and significance in certain areas.

Exploratory data is acquired both by delving to greater depths in search of detail, and also by searching in other areas. Exploration is often undertaken to uncover missing or unavailable information, or to provide confirmation or refinement of discovered data. The flexibility sought by incorporating an ad hoc exploratory element in this research is an effort to incorporate some of the advantages of 'grounded theory' (Glaser and Strauss 1967), which is a liberal approach to the collection of data, and is good at providing less obvious views and explanations. The blending of this unstructured research method with the more disciplined approach of task based primary and secondary data collection, softens the often blinkered rigidity of data collection. Similarly, the processes of 'grounded theory' also benefit in the area of clarity and standardisation of methods, although there is a risk that the theory could be neutered somewhat by the controls. This liberty to delve into cause and effect is especially important in this case, where JV failure can be caused by one factor alone whereas success may be a complex interaction of several factors.

7. Formation of Hypotheses

The problem statement contained in Chapter One, the *Introduction* to this Thesis, identifies *the main objectives* of this work as being those discussed in Section 3 therein, which points to 25 contentious and variously reported issues in the literature as discussed in Chapter Four, upon which the formation of the hypotheses is focused. The issues involved are discussed in detail in Chapter Five, where the literature sources of the hypotheses are presented, as are other influences derived from relevant research work done by others.

However, whilst a hypothesis may be formulated to address a structured problem, there are many development stages to the JV process, the *initial* establishment phase, the *growth* phase during which the parties cooperate in developing the business, and the *mature and declining* phase, any of which could be out of phase, or not contemporary to the data matrix test basis. The length of these stages and the resulting tenure of JVs can depend on the strategies employed by the parties themselves e.g. in the areas of investment, third market development, technology transfer and assimilation. So it may be that the reports of the case study subjects hereto may be a reflection of the stage of development of their particular JV, or as a result of the success of the strategic posture of the parties. The factors affecting success or failure are so numerous and varied, and so affected by the stage at which the JV is at, that makes the formation of the hypotheses necessarily a correlational exercise.

In an in-depth study of interrelated factors it is not sufficient to propose a series of hypotheses which are tested in isolation, without seeking linkages between them. For example, if a hypothesis proposes that *JVs in China do not benefit from advertising*, then this falsified hypothesis (Easterby-Smith et al 1991) may not be supported by the analysis of the data, equally the negative hypothesis may also not be significantly supportable. Although the data may provide information which suggests that it is supportable in certain cases, and important information can be derived from further investigation in this area.

The strategy in formulating the hypotheses in this study, is to identify critical areas and trends in the literature material from which to formulate the primary hypotheses, which are then falsified where appropriate to provide clarity on their basic premise. The resulting null hypotheses are then formulated to seek not only support for the alternative, but also an indicative measure. In the above example the proposition might be that *JVs in China do variously benefit from advertising*, in which case if all JVs are found to benefit from advertising then the case is clear. If, however, the matter is still not conclusive, then it may be possible to show by detailed analysis of the data that those e.g. in consumer goods, having foreign brands, or offering services, are the ones which do benefit.

In the event that both the null and alternative hypotheses in the above example were not supported by the data, but a measure of variance is discernible, then it may be possible to explain the cause and effect, and to quantify the effectiveness in terms of time and ROI. As in this case, the effect of advertising is known to be slow in China owing to the mistrust of the consumer to an unfamiliar promotional method. Thus the input data from the case studies may reflect experience at different stages of achievement, in which case it would be essential to explain the grounds for the refusal of either hypothesis, and to relate the findings to other factors in the strategy mix e.g. distribution, product, promotional spend, or personal selling. This strategy provides a richness of data not achievable by simple either/or propositions, and enables the analysis to include the interrelationship of factors.

The main areas of interest based upon the reported frequency of opportunities and threats apparent in the literature, are discussed in detail in Chapter Four, and are the basis upon which the hypotheses are formulated, which are discussed in detail in Chapter Five are as follows :-

1. Establishment costs compared to other countries
2. Investment / equity / management control balance
3. Management control pros and cons
4. Proprietary income e.g. license fees, royalties
5. Foreign exchange balancing and the repatriation of funds
6. External market and export commitments
7. Accounting methods and results reporting
8. Partner characteristics and market access
9. Distribution channel / infrastructure problems
10. Advertising effectiveness
11. Personal selling / market underdevelopment
12. Price / economic and market underdevelopment
13. Acquisition of foreign brands / quality products are motives for JVs
14. Lack of specialist agency network makes market access less expansive (more localised) and more expensive (no scale economies)

15. Acquisition of technologically advanced products is a motive for JVs
16. The dissemination of know-how leads to conflict
17. The transfer of technology leads to new domestic competitors
18. The retention of proprietary inputs ensures longevity of a JV
19. Inability to access the whole market / entry under a mistaken premise
20. Impediments to whole market access are infrastructural
21. Impediments to whole market access are politico-econo-strategic
22. Low profile, local JVs attract little attention from the authorities
23. High profile, centrally controlled JVs are subjected to bureaucracy and experimentation
24. Multiple and independently operated JVs attract less attention

The above are derived from the variety of input sources detailed in Section *5 Research Design and Protocol* hereto, and indicate the areas where the most contentious issues lay, and are the sources of the hypotheses central to this research. The development of measures of these constituent concepts enables the assessment of the validity of hypotheses, by *'operationalisation'* which is the process of the translation of concepts into variables (Bryman and Cramer 1990).

8. Analytical Regime

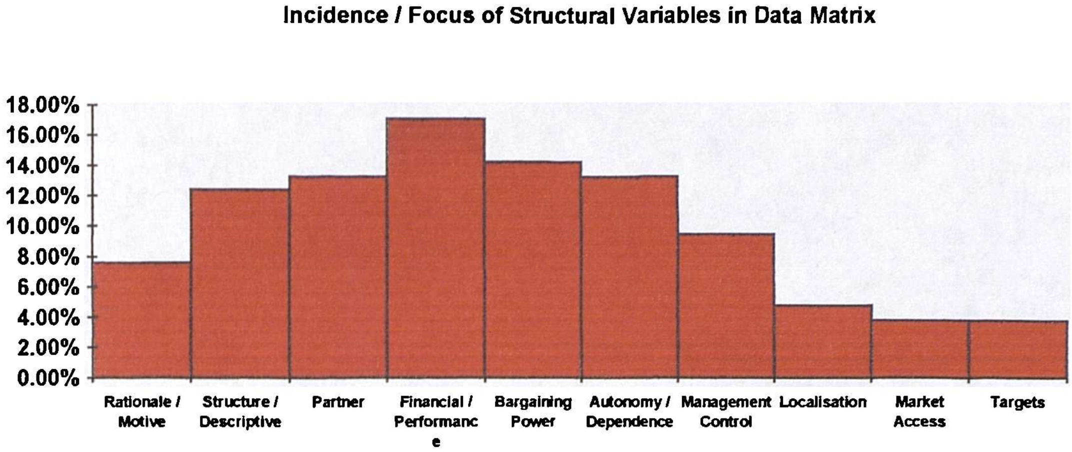
Qualitative (phenomenological) methods are used for the inductive and exploratory functions in this research to build hypotheses and to provide explanations to problems. Whilst such raw data is often not suitable for codification and statistical analysis, the comparative analysis of such does usually produce e.g. frequency distributions, relative values, causality (i.e. where one variable has an impact upon another), and other ordinal data, which can be incorporated into a more logical and consistent quantitative (positivist) analysis (Ghauri et al 1995).

The descriptive data and comparative information acquired by such qualitative analysis forms a *triangulation* basis for the quantitative analysis into which many of the qualitative derivations are entered. All codifiable data is then synthesised and entered into a Data Matrix within a Minitab 1994© Statistical Software package for analysis.

As this research is correlational in seeking cause and effect, it is assumed that more variables are involved in cause than are apparent from the effect. So the data matrix is structured to contain a large number of variables beyond those suggested by the 'qualifying criteria'. These variables fall into two basic categories, those which are *structural* by nature and relate to the established circumstances of the case study and its strategic posture, and those which are *operational* and experience based, and result from tactics. These are listed in the order in which they appear in the data matrix (Appendix One), along with the appropriate column number and abbreviated code name.

The 105 Structural Variables in the Data Matrix fall into distinct categories covering the *structure* and *descriptive* characteristics of the JVs to provide scale and comparison. The *rationale* and the respective *motives* of the partners are represented in the matrix data along with *partner* information and *financial* and *performance* data. The representation of the interaction between the partners includes the *bargaining power* which is achieved from the *balance of inputs* and results in the variable entries for the level of *autonomy and dependence* and *management control.* The relationship between the partners is often based upon their *mutual interdependence* which is affected by the *assimilation of inputs*, the level of *localisation*, the extent of *market accessed*, and the achievement of *targets.* An analysis of the focus of the 105 structural variables reveals that they are comprehensive and balanced :-

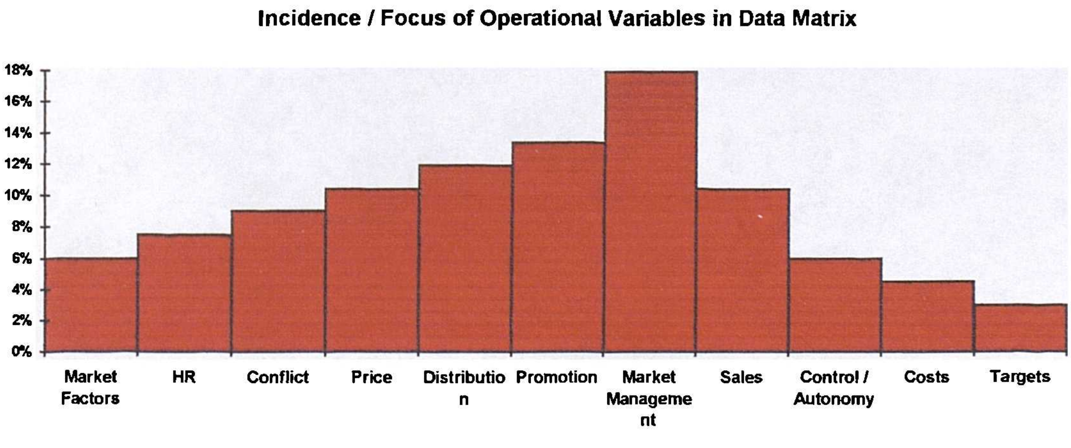
Figure : 6. 5



(Not Hierarchical)

The 66 Operational Variables herein consist largely of tactical control factors and results, and include variables covering *price* variables, *sales results*, *sales HR* issues and *sales targets*. Several variables relate to *market management*, *distribution channels*, *sales costs* and the limitations imposed by *market specific factors* such as distance and communications. The interactions between JVs and the *control* authorities and *government* provides an insight into the target pressures experienced by JVs. *Advertising* and *promotional* issues are reviewed from a variety and economic *effectiveness* perspective variables, as is the incidence and source of *conflict*. An incidence / focus analysis of the 66 operational variables is as follows :-

Figure : 6.6



(Not Hierarchical)

The input data resulting from the case studies is scrutinised for errors and outliers before being entered into the data matrix. The matrix is organised such that each column corresponds to a variable and each row corresponds to a unit / case study subject.

(a) Codification

Numerical variables such as turnover value or number of employees are kept in the original values and only adjusted by *conversion* to a common basis (e.g. currency), or *discriminated* into separate columns as in the case e.g. of employees i.e. workers vs management.

Data which is derived from the qualitative analysis and does not have a value basis (i.e. non-numerical variables), are codified to provide either ordinal or interval data inputs (Ghauri et al 1995). Discriminative codification is also made to separate e.g. positive and negative responses, and also to accommodate irregular responses such as 'no information', or 'not applicable'. Minitab 1994 marks missing data with an '*' and omits the whole row from the analysis, owing to the unknown influence that missing data could have on the full scale analysis. No effort has been made to *estimate* any missing values.

Variables containing values which provide only one choice of weighted responses as in a Likert scale are entered into the matrix as numerical variables. However, where the case study data is analysed to reveal that more than one alternative applies, again no effort is made to refine the position, instead each alternative is given a separate column (variable) in the data matrix. In all cases the negative response is signified with a '0' and the positive or affirmative case with a '1'.

(b) Sample Size

All research based upon case studies inevitably involves a sample of the population. The rules for such analysis require that such a sample should be acquired at random, and that it should be of a sufficient size to be representative of the population. A test for sufficient size requires that some knowledge of the percentage of the occurrence exists, and this can be related to the level of error sought. The following formula proposed by Easterby-Smith et al (1991), provides a minimum sample required to achieve a given level of accuracy for a particular question.

$$n = \frac{P\,(100 - P)}{E^2}$$

where n is the sample required, P is the percentage occurrence, and E is the maximum error required.

(c) The Scale Representativeness of the Sample

A population may include extremes of interval data, which a randomly acquired sample may include at a greater proportion than they appear in the population. Such extremes are termed *outliers* and are identified within the sample in this research by way of *Stem-and-Leaf* and *Boxplot* analyses. These analyses are performed herein within the Minitab Computer program, and examples can be seen in the testing performed in Chapter Seven 1(a) *Size of Sample Cases*, and in Appendix Two Tables 1.1 to 1.3(a). The formulae for the identification of outliers both by practitioners of exploratory data analysis, and within Minitab are explained by Bryman & Cramer (1996), as being :-

- For outliers at the low end --- first quartile --- (1.5 x the inter quartile range).
- For outliers at the high end -- third quartile --- (1.5 x the inter quartile range).

(d) Descriptive Analysis

Much value exists in the single variable domain to provide sample characteristic data which can be statistically analysed by *univariate frequency distribution* methods to be indicative of the population. This is an important first step in the research process, as it provides a perspective prior to finally structuring the orientation of null and alternative hypotheses, and produces a variable factor refinement which simplifies much of the more complex analytical processes involved in *correlational* analysis.

Although analysis of a single variable can go beyond the process of a simple summation of frequency. The results of this initial analysis can be *tabulated* or shown as a *histogram* and *frequency table* which displays statistical features e.g. the sample mode. Detailed analysis can reveal further characteristics of the sample / variable e.g. the mean (average), median (central point), standard deviation (the extent of concentration / dispersal from the mean), minimum (value), maximum (value), first quartile (values occurring in the first quarter of the sample), and third quartile (values in the third quarter).

These sample statistics can also be related to the population as a whole, by treating the *sample mean* $\bar{x}$ as an estimate of the *population mean* μ. A 95% *confidence limit* for μ may be achieved by using a *t-distribution* or the *Wilcoxon confidence interval.* It is also possible to test any number of categories with hypothetically given probabilities by the use of the *Chi-square* test (also known as 'the goodness of fit test'). These methods enable the development of *population significant* data for the testing of the hypotheses in this research.

An example of the raw data refinement using the methods discussed above would be the variable *JV approval establishment targets (not met met exceeded),* whereby in the first instance a simple frequency count would indicate the distribution by which targets are met, and this data can be tabulated by Minitab as follows :-

Tabulated Summary Statistics for Discrete Variables

C1	Count	CumCnt	Percent	CumPct
0	10	10	16.67	16.67
1	10	20	16.67	33.33
2	40	60	66.67	100.00

N = 60

In this 'very special' example it is clear that the mode is '2' i.e. that *JV approval establishment targets are exceeded* by 66.67% of JVs. Although this table contains data drawn from a relatively small sample of the population i.e. 60 cases. If we are to draw inferences from these findings which might be characteristic of the whole population, then we must analyse this data in greater depth to reveal more descriptive statistics :-

Descriptive Statistics

Variable	N	Mean	Median	TrMean	StDev	SEMean
C1	60	1,500	2.0000	1.5556	0.7702	0.0994
Variable	Min	Max	Q 1	Q 3		
C1	0.0000	2.0000	1.0000	2.0000		

These results show from the min/max that all options occur within the sample, and confirm from the *median* and *mean* that the tendency is that the targets are exceeded, although the *standard deviation* shows that the incidences are quite widely dispersed about the *mean*, which at 1.500 appears to be significantly between the 'met' point of '1' and the exceeded point of '2'. The *Q1* and *Q3* values are not relevant in this case because the incidence of the cases in the first quarter or the third quarter is not governed by the involvement of any other variable such as a hierarchical ranking or period. This analysis could, however, be expanded to compare this issue with that of e.g. company size, turnover, or advertising spend, such that the findings of a multivariate analysis would reveal whether there is a relationship between any of these factors and performance.

The *mean* of '1.5000' is, of course, derived from the sample, but the focus of research must be towards the population as a whole. Therefore, the data derived from the sample can only be considered as characteristic of the total population, if it is sufficiently convincing that there is a clear tendency within itself. A statistical *t-distribution* test takes the *mean* and the *standard deviation* into consideration when calculating the *confidence interval (level of significance)*, within which the *mean* can be considered as indicative of the population. Minitab presents the same 'very special' data as follows :-

Confidence Intervals

Variable	N	Mean	StDev	SE Mean	95% C. I.
C1	60	1.5000	0.7702	0.0994	(1.3010 - 1.6990)

It is clear from this data that the *mean* falls within the 95% confidence interval, and thus we may conclude that the *mean* characteristics ($\bar{x}$) found in the sample, can be assumed to be those to be found in the population i.e. that there is a 95% probability that the confidence interval limits 1.3010 - 1.6990 contain the *population mean* μ value. This method is used widely in this research to qualify variable data as significant, and also in multivariate analysis to ensure the quality of the findings. However, the t-distribution test lends itself to this analysis as the inputs are basically drawn within certain parameters, in cases where the inputs are non-parametric e.g. R & D expenditure, turnover, sales, i.e. involving different values for each input, the alternative Wilcoxon Confidence Interval test is available to test for similar characteristics :-

Wilcoxon Signed Rank Confidence Interval

	N	Estimated Median	Achieved Confidence	Confidence Interval
C1	60	1.500	95.0	(1.500 - 2.000)

Many of the methods used in this research are based upon the testing of hypotheses. In this 'very special' hypothetical example it may be believed that the mean occurrence of the exceedance of targets is greater than 1.7. In the absence of any further data to throw more light on the subject we would use a two-sided alternative to the hypothesis (H) i.e. that **A : μ < 1.7**. If we use the same level of significance as previously i.e. $\alpha = \mathbf{0.05}$ which results in a confidence probability (0.95 + 0.05 = 1), then we can use the confidence interval to test the hypotheses.

If the hypothetical value falls within the confidence interval then the hypothesis (H) cannot be rejected, however, as I have used a two-sided alternative it may be found that in the event of refusal of the null hypothesis (H), that the alternative hypothesis (A) falls within the confidence interval and is supported.

(H) and (A) as above are tested using the t-test method as follows :-

T-Test of the Mean

Test of mu = 1.7000 vs mu > 1.7000

Variable	N	Mean	StDev	SEMean	T	P-Value
C1	60	1.5000	0.7702	0.0994	-2.01	0.98

The above is testing the hypothesis (H) i.e. 1.7 is more indicative of mu than would be a value higher than 1.7.

T-Test of the Mean

Test of mu = 1.7000 vs mu < 1.7000

Variable	N	Mean	StDev	SEMean	T	P-Value
C1	60	1.5000	0.7702	0.0994	-2.01	0.024

The above is testing the alternative hypothesis (A) i.e. 1.7 is more indicative of mu than would be a value lower than 1.7.

It is clear from this that (H) is supported as falling roughly within the confidence interval and this is confirmed by the P-Value 0.98 being greater than the 0.05 level of significance, whereas the P-Value for (A) is less than 0.05 at 0.024. The alternative hypothesis (A) is, therefore, not supported indicating that μ (i.e. the population mean level of the exceedance of targets) is less than 1.7, and as is shown from the earlier confidence interval t-test is actually at the level of 1.5, which when tested as follows:-

T-Test of the Mean

Test of mu = 1.5000 vs mu not = 1.5000

Variable	N	Mean	StDev	SEMean	T	P-Value
C1	60	1.5000	0.7702	0.994	0.00	1.00

is supported by the optimal P-Value of 1.

Often both (H) and (A) P-Values may fall within the confidence interval, so strictly speaking neither could be refused, herein lays an important feature of this t-test method especially when using synthesised qualitative data as in this research, in that the relationship of P-Values can act as an indicator as to the direction in which the true value of μ lays.

(e) Interactions Analysis

So far it has been shown that data matrix inputs can be analysed to extract sample characteristic information, and further how this information can be used to define μ as an indication of the population. The t-test enables this research process to propose hypothetical values for testing in line with the base data. However, hypothesis testing involves the testing of the distribution of a *sample random variable* called a *test-statistic* (Ghauri et al 1995), which can relate to the differences and associations between groups, and the chi-square method is used frequently in this research.

The chi-square method enables this research to relate the example used thus far of *JV establishment targets being not met met exceeded* with, for example, the relationship of whether *JV approvals targets* were *unreasonable same reasonable.* I will assume in this 'very special' example that *'met and exceeded'* and *'same* and *reasonable'* are both achieved positions and consider just the extreme positions in both cases i.e. *'not met* and *exceeded'* and *'unreasonable* and *reasonable'*. For clarity in this explanation I will set out the 'very special' data in a contingency table as follows :-

Table 6.2

	Targets		
	Reasonable	unreasonable	Total
Meeting Targets	20	30	50
Not Meeting Targets	5	5	10
Total	25	35	60

Clearly if targets could be directly correlated with success or failure by the participants, then the table would look like Table 6.3 and further study would not be necessary on this issue as follows :-

Table : 6.3

	Targets		
	Reasonable	Unreasonable	Total
Meeting Targets	50	0	50
Not Meeting Targets	0	10	10
Total	50	10	60

However, the data in Table 6.2 suggests that the majority of the targets which were met were considered to be unreasonable, and half of those which were not met were anyhow considered to have been reasonable. The question being investigated here has nothing to do with the extent or the nature of the targets, instead the analysis seeks to determine if there is a relationship between the reasonableness of targets and the occurrence of them being met or not.

The chi-square test used to test such a hypothesis has the formula :-

$$\chi_{II}^2 = \sum_{i=1}^{k} \frac{(O_i - E_i)^2}{E_i}$$

where :

O is the reported number of cases occurring in a category

E is the expected number of cases occurring in a category

The number of degrees of freedom in a contingency table is derived from *(R-1)x(C-1)* where *R* and *C* denote the number of rows and columns respectively (Remenyi et al 1998).

thus O of *'meeting target reasonable'* would be calculated :-

$$\frac{50 \times 25}{60} = 20.83$$

and so on through each of the four cells.

The formula for chi-square produces :-

$$\chi^2 = \frac{(20 - 20.83)^2}{20.83} + \frac{(30 - 29.17)^2}{29.17} + \frac{(5 - 4.17)^2}{4.17} + \frac{(5 - 5.83)^2}{5.83}$$

$= 0.033 + 0.0236 + 0.165 + 0.118 = \underline{0.3396}$ whereas to achieve significance at the 0.05 level with a 2 x 2 contingency table would require a χ^2 value of 3.84 (derived from a chi-square fractile table). Therefore, the chi-square test of the relationship between *'meeting not meeting'* and the *'reasonable unreasonable'* targets is not supported on the basis of the returns recorded in Table 6.2.

Whilst this test has limitations on the minimum value of entries, it is widely used in this research to test the significant relationship of variables. The logical causal link between variables is explained in each case, and a yardstick perspective is applied to each analysis to (a) attach relative value to the findings and (b) relate the findings to other factors in the research.

(f) Cross Tabulation

Whilst the mutual influence and relationship of variables can be tested as above, the data may also be presented as a cross-tabulation which can be expanded to include more variables and so provide more refined information, although this method is primarily used in this research to facilitate the handling of the large amount of data.. Or the values can be expressed as other nominals e.g. as percentages or monetary values or both, such that the proportionality of each cell value is discernible. In addition to enlargement and greater refinement, cross-tabulation also facilitates an insight into cause and effect, and independence and homogeneity within the interrelationship of variables. For example, whilst we have found by the chi-square test that the relationship between the variables in Table 6.2 was an insupportable hypothesis, we may suspect that Company size may play a role in that perhaps big JVs make more money or perhaps that smaller JVs have lower targets. As unlikely as this proposition is, it is clear from the following cross-tabulation (using the same data as in Table 6.2), that a new perspective is apparent :-

Table : 6.4

	Targets				
	Big Co's.		Small Co's.		
	reasonable	unreasonable	reasonable	unreasonable	Total
Met	15	5	5	25	50
Not met	0	0	5	5	10
Total	15	5	10	30	60

This 'very special' cross-tabulation (in which the dependent variables have remained the same, and the independent variables i.e. the cases which have been delineated, discriminated/analysed), has revealed that all big companies have met their targets, 75% of which were considered reasonable. Whereas the majority of small companies (62.5%) whilst meeting their targets considered them to have been unreasonable, with only 25% of them considering them to be reasonable and only half that number meeting them. So whilst there was not found to be a statistically significant relationship between the variables overall, cross-tabulation provides evidence from sample data, that there is a significant relationship between Company size, targets, and achievements. This would lead to the involvement of appropriate other independent variables and hypotheses, and this strategy of 'chasing' significance in this way is the major feature of this research methodology.

(g) Categorical Data Analysis (log-linear models)

This method is widely used herein as a verification during analysis because it is a more satisfactory method than using a chi-square analysis in connection with a cross-tabulation of several variables. The data for analysis is derived from the data matrix created from the case study data which corresponds to the structural and operational variables listed above. Various analyses are easily obtained ranging from simple frequency tables for a single variable or a contingency table for two variables, through to complex regression analysis.

The variables in the data matrix are given titles and symbols. The data for each case variable entry has been put into a column in the computer spreadsheet with the variables entered in the columns i.e. the first variable being X_1, the second X_2 and so on, and the case data in the rows numbered 1 to 174. The variables are also given a title of up to 8 characters e.g. 'AdspenLY' and a brief explanation i.e. 'advertising expenditure last year'.

If, for example, the research seeks information on whether advertising expenditure increased from last year to the present on the basis of the variables 'AdspenLY' and 'Adspend', then this type of analysis is called *'a two-sample problem with paired observations'*. The observations are *paired'* because there are two variable entries for each case. Analysis of this data requires concentration to reduce the number of variables, and we can do this by subtracting one variable value from the other and entering the results into a separate column. Some of these values will be positive indicating an increase, and some negative indicating a decrease. The computer displays such information as follows :-

Table : 6.5

Paired Variable Differences

92	49	72	41	63	40	63	-12	90	14
112	27	46	46	-12	90	27	82	41	16
-36	36	70	61	-30	19	-15	30	-52	67

(this data should be read from left to right across the page).

The null hypothesis *H* is that *the population mean of differences* is equal to zero. The alternative *A* hypothesis is that the population mean is greater than zero signifying growth in advertising expenditure. The t-test computer print out is as follows :-

T-Test of the Mean

Test of mu = 0.00 vs mu > 0.00

Variable	N	Mean	StDev	SE Mean	T	P-Value
C1	30	35.23	43.31	7.91	4.46	0.0001

The P-value 0.0001 is smaller than 0.05 and therefore *H* is rejected, with the conclusion being that the increase in advertising expenditure is significantly (α = 0.05) different from zero.

In this way it is also possible to test *unpaired* observations e.g. that income is the same for JV companies in capital and consumer goods industries. Similarly, a test can be done for *one way analysis of variance* to define e.g. whether all extents of technology transfer arrangements result in the same mean income.

(h) Regression Analysis

Regression techniques are widely used tools in this research to test the correlation between variables. For example, simple linear regression is used to determine the interaction of variables such as advertising and sales. The relevant data can be accessed from the data matrix, and a useful start is to scatter plot the two variables, which gives a visual indication of their relationship, and this can be verified by computing the *correlation coefficient.*

Whilst the above example gives an indication of the existing situation, it gives no statistically significant indication of the interaction of variables. A simple linear regression of advertising on sales can be computed for the same data as follows :-

Regression Analysis

The regression equation is
Sales = 1.19 + 1.75 Co. Ads.

Predictor	Coef	Stdev	t - ratio	P
Constant	-1.1882	0.8506	-1.40	0.184
Co. Ads	1.7540	0.1771	9.90	0.000

s = 1.814 R-sq = 87.5% R-sq(adj) = 86.6%

The estimated constant -1.1882 provides an indication of sales in the absence of advertising, showing that sales are advertising dependent. The regression coefficient of sales on advertising is 1.7540 which suggests a relative estimated expected value of sales if advertising is increased by one unit. The P-value being greater than 0.05 would cause us to refuse any hypothesis suggesting that sales are not influenced by advertising. The *sample determination coefficient* R-sq = 87.5% shows that the analysis has taken into consideration 87.5% of the variations in the data. The conclusion being that advertising is a significant factor in sales.

This analysis can be taken further to assist in measuring and as a check of assumptions on the viability of advertising in this 'very special' case. The following details the 'fits' and 'residuals' resulting from the above analysis as follows :-

	Co. Ads.	Sales	Fits	Residuals
1	0	1	-1.1882	2.18821
2	1	1	0.5658	0.43419
3	2	2	2.3198	-0.31983
4	2	2	2.3198	-0.31983
5	2	2	2.3198	-0.31983
6	3	4	4.0739	-0.07385
7	3	4	4.0739	-0.07385
8	3	4	4.0739	-0.07385
9	4	5	5.8279	-0.82787
10	3	5	4.0739	0.92615
11	5	5	7.5819	-2.58189
12	6	8	9.3359	-1.33591
13	7	9	11.0899	-2.08993
14	8	11	12.8440	-1.84396
15	7	13	11.0899	1.91007
16	9	19	14.5980	4.40203

The *'fits'* are the *estimated expected sales or predicted sales* corresponding to the values of the advertising found in the sample. The *'residuals'* are the deviations from the estimated regression line, and the extent of deviation can be seen from the ratio of *fits* to *residuals* when ideally *fits* would be close to sales and *residuals* close to zero. These characteristics can also be displayed in a scatter diagram to show how the points relate to the regression line. However, other factors like competitor advertising and sales can influence this analysis, by increasing product awareness on the one hand and by achieving sales and reducing the number of available buyers on the other.

Multiple Regression is a more powerful method of analysis which enables variations in sample data to be explained by numerous independent variables. The method of analysis takes the form of a number of t-tests called *partial t-tests*, which are said to be significantly different from zero when they have a significantly small P-value.

This type of analysis can also produce a series of determination coefficients, one for each paired permutation of variables. These coefficients produce a percentage value of the influence that the pairing has on the variations in the sample data. A *sample correlation coefficient* between the variables is also produced to provide a statistical balance, and a *multiple determination coefficient* which can be tested for significance.

Using the above same 'very special' data it is possible to involve competitive advertising into this example multiple regression analysis as follows :-

Regression Analysis

The regression equation is

Sales = -1.31 + 0.857 Co/Ads + 0.941 Comp/Ads

Predictor	Coef	StDev	t - ratio	P
Constant	-1.3092	0.7080	-1.85	0.087
Co/Ads	0.8575	0.3632	2.36	0.035
Comp/Ads	0.9408	0.3485	2.70	0.018

S = 1.507   R-sq = 92.0%   R-sq (adj) = 90.8%

The comprehensive coverage of this analysis is supported by the R-sq value which shows that 92% of the variation in sales in the sample data is related to the interaction of the independent variables involved. Both of the independent variables i.e. Co/Ads and Comp/Ads have P-values within the 0.05 level of significance.

The determination coefficients also confirm that there is an interaction between both advertising activities and sales, and this can be further analysed with a *Pearson Correlation Analysis* as follows :-

Correlations (Pearson)

	Co/Ads	Comp/Ads
Comp/Ads	0.914	
Sales	0.935	0.941

which shows that all advertising activity is highly correlated with sales, although, in this 'very special' case, competitor advertising has made a marginally greater contribution to company sales than has company advertising. This situation maintains despite a 65 : 64 proportion of advertising activity in favour of the company, and probably results from the first month when there was only competitor advertising, and yet the company achieved some sales in a situation of high dependence on advertising.

Regression Analysis can give guidelines as to which variables to engage in a discriminant analysis. *Linear discriminant analysis* is used herein as an extension of regression analysis to categorise observations involving numerous variables and enable us to predict which characteristics lead to expected results.

For example, the analysis may involve the issue of foreign JV partner technology transfer or retention strategies, and the incidence of profitability. *Profitability* would be the dependent variable, while the extremes of whether technology has been transferred or not are the independent variables.

The analysis takes the initial form of grouping and counting the entries in tabular form, and then provides a classification of the data with the squared distances between groups indicating their variability. A linear discriminant function for the groups is then provided to reveal the interaction of the variables. The following is a 'very special' example :-

Discriminant Analysis

Linear method for response : Profit
Predictors : Transfd Retained

Group	0	1
Count	9	11

Summary of Classification

Put into	.....True	Group.....
Group	0	1
0	8	0
1	1	11
Total N	9	11
N Correct	8	11
Proport.	0.889	1.000

N = 20 N Correct = 19 Prop. Correct = 0.950

Square Distance Between Groups

	0	1
0	0.0000	16.0000
1	16.0000	0.0000

Linear Discriminant Function for Group

	0.	1
Constant	-2.000	-12.000
Transfd	6.000	6.000
Retained	6.000	24.000

As the two functions produce : $f_o = 10.000 < f_1 = 18.000$, we can predict that there is a relationship between profit and the retention of technology.

(i) Principal Components Analysis

As this research involves a very large number of highly correlated variables, there is more data than can be handled in an efficient way. PC analysis is a data reduction technique which is based on the principle that what matters most about variables is the variation between them. Minitab provides a correlation analysis which indicates the extent of correlation, from which highly correlated variables can be selected for PC analysis.

Correlations (Pearson)

	Capital	Invest.	Turnover	Sales	Profits
Invest.	0.991				
Turnover	0.981	0.971			
Sales	0.844	0.802	0.917		
Profits	0.795	0.765	0.670	0.467	
Promotn.	0.765	0.696	0.773	0.788	0.657

PC analysis works on the *sample variance*, the sum of which is called the *total variance.* The variance of all variables is reduced to a common value base with a total variance of 6, which is also the sum of the PC values given to the variables. This process is called *'standardisation'.* The relative weighting of the variables is given by the *Eigenvalue* which is simply a proportion of sample variance attributed to a particular variable.

The following is an example of a PC analysis :-

Principal Component Analysis

Eigenanalysis of the Correlation Matrix

Eigenvalue	4.9908	0.5726	0.3721	0.0634	0.0010	0.0000
Proportion	0.832	0.095	0.062	0.011	0.000	-0.000
Cumulative	0.832	0.927	0.989	1.000	1.000	1.000

Variable	PC1	PC2	PC3	PC4	PC5	PC6
Capital	-0.442	0.075	-0.238	-0.118	0.557	0.646
Invest.	-0.430	0.092	-0.405	-0.384	-0.699	0.078
Turnover	-0.438	-0.183	-0.246	-0.155	0.391	-0.733
Sales	-0.397	-0.565	0.032	0.682	-0.210	0.112
Profits	-0.352	0.786	0.163	0.452	-0.039	-0.156
Promotn.	-0.381	-0.120	0.832	-0.381	-0.050	0.033

It is clear from this analysis that PC1 and PC2 account for 92.7% of the total variance in the sample, and if we are prepared to sacrifice 7.3% of the information in the original variables, then we can perform the analysis using just 2 of the 6 variables. Even if we use only 3 of the variables we are assured of 98.9% of the variance in the sample data. This process is used repeatedly in this research owing to the large number of variables and the highly correlated nature of the data.

Cluster analysis is another useful tool used extensively in this research owing to the large data matrix involved. This technique identifies natural groupings of either variables or observations within the data matrix, and attaches values of similarity and distance to them, which in turn provides confirmation / negation of findings. This method also provides guidance on the selection of data inputs, and an insight into both trends and extremes by the identification of natural and unnatural groupings.

9. Operational Regime

The background information forming the basis of this research has been acquired from secondary sources as described in *'Published Data'* above, and augmented by further *exploratory* research. This broad view of EJVs in China has then been focused by the addition of primary data derived from the case studies. This quantitative and qualitative information has then been analysed in the first instance by comparison within the case study domain, and by referral to the environmental framework, to reveal a variety of opportunities and threats.

The responses to these opportunities and threats have resulted in the strategic postures taken by the subjects hereto, and evolved into a variety of JV structures which have been variously effective. The hypotheses in this research are founded upon these evolved structures, their strategic posture, strategy effectiveness, and environmental pressures, according to the criteria outlined in Section 2 above. The input data has been initially subjected to a verification study to remove any outliers or unique circumstances which are not relevant, and then codified for inclusion into the data matrix.

The deductions drawn from the secondary data and the *statistical inferences* derived from the qualitative data in the case studies is used to define interaction linkages between variables in the matrix (Ghauri et al 1995). For example, if the suggestion is that the inability to repatriate profits / income is a major problem, and if we know that foreign exchange / export targets are in force at relatively high levels, then we easily identify and operationalise numerous variables into an analysis.

Initially, a descriptive analysis provides a frequency / magnitude perspective, which may confirm or decline many assumptions at an early stage. However, such a simple counting exercise would most likely just 'weight' some factors more than others, which in many situations would not produce any statistically significant findings. Although it may indicate that *cluster analysis* could provide relevant groupings, and *principal components analysis* may identify the most efficient grouping of either subjects or variables.

The analysis of the data continues using all of the statistical tools discussed herein to (a) provide an insight into the interaction of variables, (b) to define cause and effect with the maximum internal validity possible from a non experimental research design, (c) to provide perspective within the variability of subjects and (d) to test the

21 hypotheses. Such a broadly based study with a large number of interactions and variables inevitably involves hypotheses, the testing of which produces outcomes between which second stage interactions exist. This research continues to analyse such linkages to a further stage, although only to provide clarity, and without the unrealistic hope of reducing responses to a single solution.

10. Statement of Results

The complexity, breadth, nature and methodology of this research requires that the reporting of results follows an explanatory stepwise pattern, in which data is *defined*, *quantified*, *related to the central issue*, *operationalised*, *analysed*, and *cross related to other findings* to convey logical congruence, validity and relevance.

The conclusions derived from this research are presented in a similar developmental format to substantiate the original research problem, the analytical regime, the cause and effect relationship, and the results of the hypothesis tests. These latter results are then referred back through the case studies as indicators of strategic shortcomings, alternative strategies, defence mechanisms, operational risks, and avenues of opportunity. Although, it is clear that no single strategy will emerge as a panacea for those participating in JVs in China, rather a measure of risks and opportunities will emerge, from which a permutation of characteristics can be incorporated into a best possible strategic posture.

11. Summary

The relative merits of the various research orientations are discussed in this Chapter, which proposes that the nature of this project requires both primary and secondary inputs and a hybrid quantitative and qualitative research methodology. Such an approach is appropriate owing to the large number of variables and the high level of interdependence and interaction between them. Furthermore, the variety in the ages, sector, stage of development, strategic posture, and relative success of the subject cases, when related to the environmental change over time, requires an element of qualitative research to explain the quantitative findings, and vice versa to evaluate strategies.

Two research structure options are available, either to take a broad view on a shallow but large scale frequency exercise, or to concentrate on a smaller number of cases and to study them comparatively in great depth. The unavailability of large scale in-depth data excludes the former option, and the in-depth limited sample study is more appropriate as it enables the 'study of an object with many dimensions, and then to draw an integrative interpretation'.

The main sources of input data into this research i.e. *the twenty four case studies* and the *exploratory data* have been randomly selected, tested for outliers and found to be indicative of the greater population, from which literature basis many of the hypotheses hereto are formulated. The *published data* inducted into this research is taken across a broad spectrum to provide comprehensive coverage. Whereas the *exploratory data* has enabled complete and validated coverage, by seeking out missing data and refining and confirming inducted material.

The initial proposition to this research (Chapter One) asserts that the motives of the Chinese are self serving and that JVs are likely to fail. Although, JVs go through many stages from the co-operation and development of the establishment phase to the mature and declining phase. The duration of these phases are as varied as are the JVs themselves, and the hypotheses to this research are designed to address more than just the cause and incidence of change, but also the circumstances prevailing when change occurs.

An analysis of all input data provides a list of the main areas of interest based upon their reported frequency, and are the sources of the hypotheses central to this research. Qualitative i.e. phenomenological methods are used to provide explanations to problems, and related to quantitative i.e. positivist analysis by way of *triangulation*. All codifiable data, including that which is mainly qualitative and can be translated into ordinal or ratio inputs, are entered into a data matrix within the statistical software for analysis.

A variety of analyses are performed by the operationalisation of the over 4000 data entries, to provide *descriptive, interaction, cross tabulation, categorical,* and *principal components* analyses of the characteristics of the variables. This analytical regime provides information on the interaction of variables, defines cause and effect, and perspective within the variability of subjects.

The conclusions resulting from this research are presented in a similar format to that of the original research problem, the analytical regime, the cause and effect relationship, and the results of the hypotheses tests.

Chapter Seven

Data Analysis and Hypothesis Testing.

The purpose of the hypotheses testing process is to ascertain whether the propositions herein are supported by analysis of the subject data. At the most basic level of analysis the incidence and frequency of reported characteristics indicates their prevalence within JVs, and these and other methods are used in the preliminary qualifying role of the next section to determine the validity of the sample. The validity testing in Section 1 *(Sample Characteristics)* involves variables which are widely reported characteristics, and establishes that on these bases the sample hereto is representative of the population. Section 2. *(The Testing of the Hypotheses)* operationalises the data in the testing process to determine whether the propositions made are indicative of the actual circumstances of JVs in China and, therefore, can be assumed to affect a significant majority of participants. This Chapter focuses on the detailed presentation and discussion of the main findings, with referral to the management of data and detailed analysis of statistics in Appendix Two, where they are referenced sequentially in line with the hypotheses e.g. Appendix Two Table H1(a), H1(b), H2(a) and so on.

1. Sample Characteristics.

As the case study sample companies hereto have been acquired at random, they reflect a wide diversity in some respects e.g. company size, industry, and ROI, whilst simultaneously reflecting a good deal of similarity in terms of strategic posture, response to environmental circumstances, and establishment motive. These can be explained, on the one hand, by the infinite variety and permutation of size, industry, and profitability of companies locating in China, and on the other hand, by the comparatively lesser latitude available to the participants within the environment. Whilst the foreign JV partners' characteristics are inherently varied, such variability disposes partners to a greater or lesser ability to operate different strategies, and so there is a large variety of postures in what is recognised to be a constrained regulatory environment. Table 7.1 provides a characteristic overview of the sample.

Table : 7.1

Main Characteristics of the Sample Case Studies

Case Study	Data Matrix Code	Foreign Partner Nationality	Industry Sector	Date of Establish-ment of JV.	Equity Value of JV US$/000	Stage of Development of JV	Foreign Partner Entry Motive	JV Viable	Foreign Partner's Proportion of Equity	Management Control Held By	Proprietary Knowledge Transferred en bloc
Alpha	*1*	UK/USA	Firefighting Eqpt.	1987	300	Mature	Mkt. Entry	Profitable	Minority	Local	Yes
Beta	*2*	UK	Construction Mats.	1991	500	Mature	Mkt. Entry	Brk. Even	Majority	Foreign	No
Gamma	*3*	UK	Chemicals & Fibres	1990	6250	Growth	Glob. Strat.	Profitable	Majority	Foreign	Yes
Gamma	*4*	UK	Chemicals & Fibres	1994	5000	Growth	Mkt. Entry	Brk. Even	Majority	Foreign	Yes
Gamma	*5*	UK	Chemicals & Fibres	1994	3400	Growth	Glob. Strat.	Profitable	Majority	Foreign	Yes
Gamma	*6*	UK	Chemicals & Fibres	1995	4100	Growth	Reg. Strat.	Brk. Even	Majority	Foreign	Yes
Gamma	*7*	UK	Chemicals & Fibres	1997	1000	Establishment	Glob. Strat.	Not Profit.	Majority	Foreign	Yes
Gamma	*8*	UK	Chemicals & Fibres	1997	700	Establishment	Mkt. Entry	Not Profit.	Majority	Foreign	Yes
Delta	*9*	Switzerland	Engineering Mats.	1995	350	Establishment	Locat.Spec.	Profitable	Minority	Local	Yes
Epsilon	*10*	HK/taiwan	Foodstuffs	1990	3800	Growth	Mkt. Entry	Profitable	Majority	Foreign	Yes
Epsilon	*11*	HK/Taiwan	Foodstuffs	1990	2730	Growth	Mkt. Entry	Profitable	Majority	Foreign	Yes
Zeta	*12*	Japan	Engineering Mats.	1994	500	Establishment	Reg. Strat.	Profitable	Majority	Foreign	Yes
Eta	*13*	UK	Industrial Gases	1988	10800	Establishment	Mkt. Entry	Profitable	Majority	Foreign	Yes
Theta	*14*	UK	Foodtsuffs	1988	25000	Growth	Mkt. Entry	Brk. Even	Majority	Foreign	Yes
Yiota	*15*	Germany	Industrial Eqpt.	1992	7600	Mature	Mkt. Entry	Not Profit.	Majority	Foreign	Yes
Kappa	*16*	Germany	Elect. Components	1994	1400	Mature	Mkt. Entry	Profitable	Majority	Foreign	No
Lamda	*17*	USA	Elect. Components	1991	1000	Mature	Glob. Strat.	Profitable	Majority	Foreign	No
Mi	*18*	USA	Optical Prods / Scrvs.	1987	8400	Mature	Mkt. Entry	Profitable	Majority	Foreign	No
Ni	*19*	UK	Threads & Yarns	1986	55000	Mature	Glob. Strat.	Profitable	Majority	Foreign	Yes
Xi	*20*	Germany	Power Cables	1994	19000	Growth	Mkt. Entry	Profitable	Majority	Foreign	No
Omicron	*21*	USA	Elect. Products	1995	10000	Establishment	Mkt. Entry	Profitable	Majority	Foreign	Yes
Pi	*22*	HK/USA	Drinks	1983	150000	Mature	Mkt. Entry	Profitable	Majority	Foreign	No
Rho	*23*	UK	Advertising	1991	500	Growth	Mkt. Entry	Profitable	Majority	Foreign	Yes
Sigma	*24*	UK	CDs/Ultra-S-Welding	1988	500	Mature	Mkt. Entry	Brk. Even	Majority	Foreign	Yes

A review of the case study data on a selective *'by-variable'* basis, to ensure that whilst the randomness of the data satisfies the needs of statistical probability, it is also comprehensive and *reflects the known variability in the population.* The following reviews *some characteristics* in the variable domain, for *variety, extremes* and *outliers*, by way of a frequency analysis to reveal the *incidence* of certain characteristics, and by way of descriptive and confidence level analysis to indicate the *prevalence* within the population (variables are referred to by the reference *C1* to *C174* as they appear in the data matrix in Appendix One hereto).

(a) Size of Sample Cases.

The purpose of this variable within the analysis is to differentiate the sample cases by size. As discussed in *Partner Selection* in Chapter Three, JVs in China exist in varying sizes, and the following is an analysis of the sample data matrix variable C1 and the data in Table 7.1 :-

Table 7.2

Analysis of the Sample by Equity Value (US$/000)

US$/000	Number of Cases
< 1000	9
1001 to 5000	6
5001 to 7500	1
7501 to 10000	3
10001 to 20000	2
20001 to 50000	1
50000 to 100000	1
> 100000	1
	24

Source : derived from the 24 case studies.

which reveal that there is a wide divergence in size within the sample, i.e. Min 300 and Max. 150,000 (US$/000s), with a considerable variability indicated by the standard deviation of 31462 (see Appendix 2 Table 1.2. So whilst there are very big businesses, there are also relatively small ones, and that the *Mean* is of a modest size at 13243, although there is no clear concentration of business size, with a wide dispersal in size around the *Mean* size. The input data is tested for outliers using Stem and Leaf and Boxplot methods as recommended by Bryman & Cramer (1996), with the analyses provided in Appendix Two Table 1.1. The results of these analyses have revealed 4 cases of high level outliers i.e. data matrix code numbers 14, 19, 20 and 22. The remaining 20 cases are compared in the time / frequency domain i.e. the cases established at the time coinciding with the reported statistics in the literature are compared, to account for the changing trends in the establishment of JVs both in frequency and size as discussed in Chapter Four. The results are that the sample cases compare favourably with reports of the population :-

1) Speece & Kawahara (1995) reported a mean equity size / value of JVs established in 1991 of US$ 0.7 million. The sample cases hereto have a mean value for the same year of US$ 0.667 i.e. a 95.3% comparison.

2) Shaw & Meier (1993) have reported that *two-thirds* of JVs established up to 1992 had equity values of US$ 10 million or less. The sample contains 71.4% of cases with the same characteristics for the same period, i.e. a 92.4% comparison.

3) Van den Bulcke & Zhang (1996) report in their large scale study that JVs had equity values of <US$ 0.3 million in 9.2% of cases, whereas the case study data hereto indicates 10% within the same parameters. Similarly, equity values between US$ 0.3 and 0.4 million accounted for 9.3% of cases, whereas the case study data hereto indicates 10% within the same parameters. The authors also report that 65.7% of cases occur at >US$ 1 million of equity value, whereas the sample data hereto, including outliers, finds that this occurs in 70% of cases.

4) Beamish & Wang (1989) reported that 96.8% of cases in their study involved a foreign partner contribution of less than US$ 10 million. This research confirms their findings in that 95% of the cases hereto, excluding outliers, involved the same level of contribution in the same period.

The *mean* level of relationship of reported circumstances in the population, and the data in the sample, on the basis of the above examples is 94%, which indicates that the sample is indicative of the population. The *mean* percentage occurrence in 2, 3 and 4 above is 83% which indicates a minimum sample size required on the basis of the formula provided by Easterby-Smith et al (1996), as detailed in Chapter Six *Research Methodology* hereto, of 22 with a maximum error of 8%, whereas this research is based upon 24 case studies.

Whilst there is inevitably a wide range of size of JVs in China, it is known that the trend had been towards the establishment of smaller JVs, although this changed in the 1990s towards the establishment of larger JVs (see Chapter Three *JVs in China* and Chapter Four *Literature Review on JVs in China*). The outliers identified within the above analytical regime have been excluded from the operationalisation of this variable, although they are retained within the study, and used in analyses hereafter, where other inputs of incidence and variance are investigated. The balance of the cases studied are concentrated at an equity value of under US$ 5 million (15 cases i.e. 62.5% of the total), and is said to result from the fact that JVs having a value below US$5 million are not subjected to central government control (Beamish & Wang 1989).

(b) Age of the JV

The exponential rate of growth in the establishment of JVs through the study period has been such that no practical sample size can increase proportionately to reflect it. For example, if a sample were to reflect the change of just 10 years of the study period, and then just in line with, for example, German / Chinese JVs between 1979 and 1989 (Xuan & Graf 1996, Tromsdorff & Wilpert 1991), then the sample would have to consist of at least 1,747 cases (see Appendix Two Table 1.5).

The rate of growth in the establishment of JVs in China is not a variable in this research. Whereas, the age of the sample JVs which cover 83% of the relevant period, ensures structural and strategic variability in the sample.

Table 7.3

Analysis of the Age of the Sample JVs.

Age in Years	No. of JVs.
< 1	0
1 to 3	6
4 to 6	6
7 to 9	6
10 to 12	5
13 to 15	1
	24

Source : derived from the 24 case studies.

The representativeness of the sample in reflecting the trends in the establishment of JVs i.e. the age of JVs, is evident from :-

- The absence from the sample of a case established in 1989, during the period which Pan (1997) describes as a period of 'reluctance to invest' as a result of the 4th June 1989 Tiananmen Square incident, which resulted in a sharp fall in establishments.

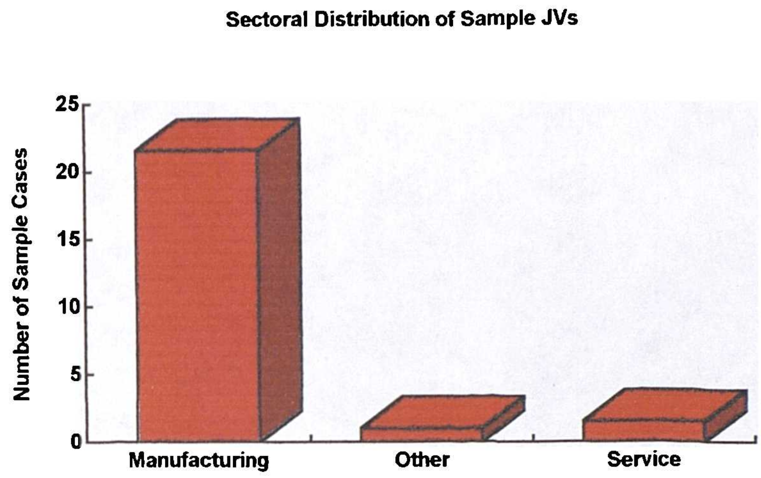
- The sample reflects the exponential growth of the pre-1983 period through to the 1986-88 period, the subsequent decline of the 1989-90 period as reported by Van den Bulcke & Zhang (1996) and Speece & Kawahara (1995), and the rapid growth of the 1994-95 period (see *Utilisation of fdi in China 1979-1996'* Table 3.2 Chapter Three).

Therefore, it follows that the sample is representative of the population insofar as its components cover almost the whole period and reflect the various trends in the development of the environment, and they have been established at various times during the changing regulatory circumstances.

(c) Type of JV

Various benefits and restrictions are applied to JVs in China within the regulations, which are structured such that results in the majority of JVs being manufacturing enterprises benefiting from location specific advantages (see *'Sectoral Analysis of fdi in China'* Table 3.6 Chapter Three). Although JVs in services, retail, and consultancy are increasing as these sectors are being opened up :-

Figure 7.1



Source : derived from the 24 case studies.

Figure 7.1 is based upon the analysis in Table 1.6 in Appendix Two which provides a frequency count of Data Matrix variable C 6, and percentage of the incidence of the sectoral distribution of the sample JVs, reflects the position that the great majority of JVs in China are involved in manufacturing owing to the historical preference for them. The evolution of JVs by type has generally been from services in the early days, followed by a proliferation of JVs in manufacturing resulting from government suasion, and lately towards the growth of 'enabling' JVs in the capital and technology sectors. The sample contains 2 cases which are relatively late entry foreign participative businesses, viz. : *'Epsilon 10'* and *'Rho 23'* , which are involved in *farming* i.e. food production, and *advertising* respectively, both of which were relatively late sectors to be opened-up to foreign participation (see Chapter Three), and one case (*'Mi' 10*) which whilst it is expressed above as a service JV to provide variability, is retained in the data matrix according to its main function as a manufacturing JV.

Luo & Min Chen (1996) found that 86% of all JVs in China to 1993 were in the manufacturing sector, as were 85% of the cases in their study sample. This evidence is supported by Schroath et al (1993) who advise that 86.1% were in the labour intensive production sector, and similarly with Van den Bulcke & Zhang (1996) who found that the share of total fdi accounted for by manufacturing JVs in the period 1989-91 was 82%, therefore, the actual share of manufacturing amongst JVs must have been much higher than this level.

A breakdown of the sample as outlined in Table 7.1, to identify the frequency of activities of JVs within the sample, finds that 21 cases are engaged in manufacturing, 1 case is divided between manufacturing and service activities (i.e. case study *'Mi'10* optical products and services), 1 further case is in the service sector, and 1 case is classified as 'other' having a large agricultural content. Therefore, 90% of the sample activity is in manufacturing, which indicates that the sample is significantly representative of the population.

The *mean* of the above reports of the incidence of manufacturing among JVs in the population is :-

$$\frac{86 + 85 + 86.1 + 82}{4} = 84.775\% \quad \text{say } \underline{85\%}$$

The 85% *mean* incidence of manufacturing JVs in the population i.e. the *'percentage occurrence'* described by Easterby-Smith et al (1991) (see Chapter Six), enables the calculation of a minimum sample size as follows :-

$$n \quad \frac{85\ (100 - 85)}{8^2} = 20\ \underline{\text{Cases}}$$

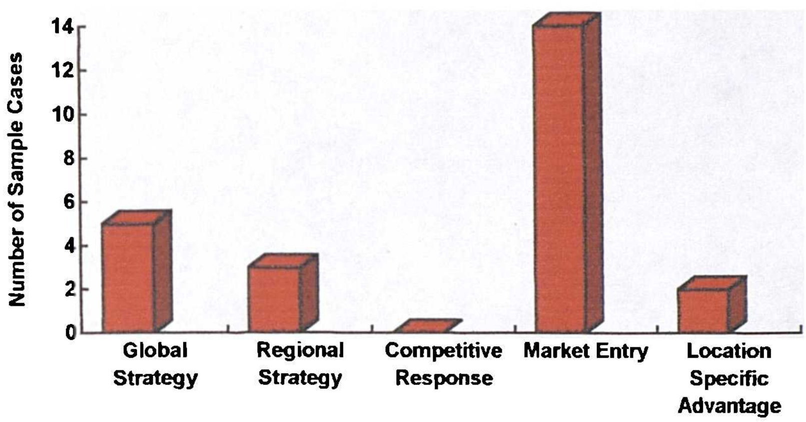
i.e. given the above data a minimum sample size of 20 is indicated with a maximum error of 8%, whereas the sample size hereto consists of 24 cases which enables a 7.25% maximum error.

(d) Foreign Partner Motive

The majority of JVs in China involve a manufacturing function because the regulations have favoured the import of technology, investment, manufacturing and products, and only relatively recently have service oriented sectors been available to foreign participation. Uptake and approval rates have been slow and at low levels, leaving the manufacturing sector as the main area of foreign participated JVs. Those forming JVs in China do so for a variety of reasons, and it is important that the JVs' function (as in C 6 see Table 1.7 Appendix Two) is qualified by the motive of the foreign partner in forming the JV.

Figure7.2

Analysis of the Incidence of Foreign Partner Motive in the Sample JVs.



Source : derived from the 24 case studies.

The data in Figure 7.2 and Table 1.7 in Appendix Two are derived from the questionnaire reference C7 which required the 24 case study respondents to provide a single dominant motive, as opposed to a Likert scale or a rank ordering, to simplify analysis elsewhere in this research. However, it is clear that a *global strategy*, *regional strategy*, or a *location specific advantage* motive given by respondents may actually be based upon market entry.

On the basis of responses to C7 in the questionnaire (see Table 1.8 in Appendix Two for details of the following), 14 cases i.e. 58% of foreign partners in the sample sought market entry. Although of those whose stated motive was other than market entry 1 case i.e. number 13 had no external *brand* (C77), *third market* (C96), or JV *export strategy* (C103), although it does have a clear local market strategy which is evidenced by the location of *regional sales staff* (C123). Therefore, the subject must have been focused on the domestic market, and thus have been motivated by market entry, whether or not as part of a global or regional strategy. Similarly, case number 11 allows the JV an *independent export strategy* (C103), without any containment of export activity (C77, C96) by the foreign partner, and the JV has a regional sales strategy (C123) in place. Of the remaining 8 cases, 6 cases have invested in regionalising their local sales operations (C123), which suggests that market entry / access was an important motive.

Therefore, 16 cases of the 24 in the sample have been clearly motivated by market entry / access. This is in line with Glaister & Wang (1993), who found that the majority of foreign partners were similarly motivated, although less than the 85% of respondents in a study by Shaw & Meier (1993), who identified market entry / access as their motive. Two of the sample cases, numbers 8 and 12, clearly have no local / regional strategy (C123) in place, and have been established for external motives, especially as they have both retained foreign partner control of exports (C77, C96). However, the remaining six cases have all established regional sales operations (C123), which evidences a measure of local market motive. Two of these cases i.e. numbers 7 and 9 have allowed the JV an independent export strategy (C103), which indicates that the foreign partner has a local motive and not an external one.

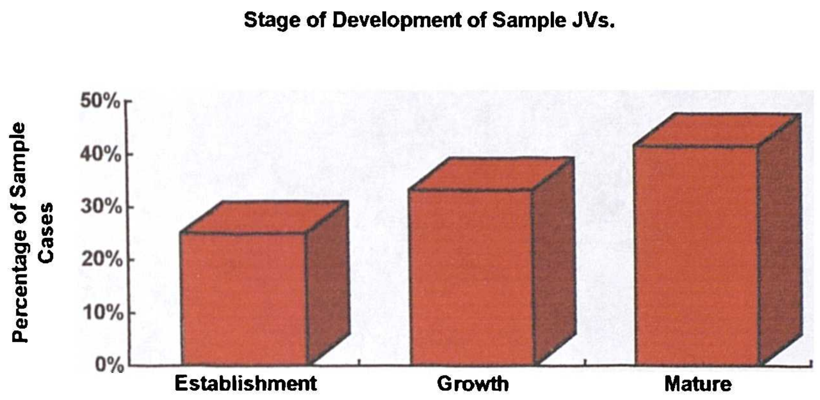
Therefore, at least 18 of the 24 subject cases, i.e. 75% of the sample have been clearly motivated by market entry / access, which indicates that the sample is 88% as representative of the population as the data provided by Shaw & Meier (1993). The test for sample size indicates a minimum sample of 23 cases at a maximum error of 7.5%, whereas there are 24 cases hereto :

$$n = \frac{85\ (100\ -\ 85)}{7.5^2} = \underline{22.6}\ \text{Cases}$$

(e) Stage of Development

The stage at which the subject JVs are at in their development is an important criteria, and is found not to be positively indicated by the age of the JV, as depicted in (b) above. Analysis of the sample data matrix variable C9 reveals that the mode is that more than two-fifths of the sample cases are in the *mature* stage of their development, one-third are in the *growth* stage, and the balance one-quarter are in the *establishment* stage (see Appendix 2 Table 1.9 which is the data used in Figure 7.3).

Figure 7.3



Source : derived from the 24 case studies.

As discussed earlier the population is bound to contain sample cases at all stages of development, the larger number of mature stage JVs is inevitable in a random sample when there exists a big pool of surviving JVs, and the fact that 25% of the cases are in the establishment phase is indicative of the level of continued investment. It follows logically, that given the variation in the JVs' ages (see (b) '*Age of JVs*' above) and characteristic differences between them, that there must be a wide variability in their stage of development.

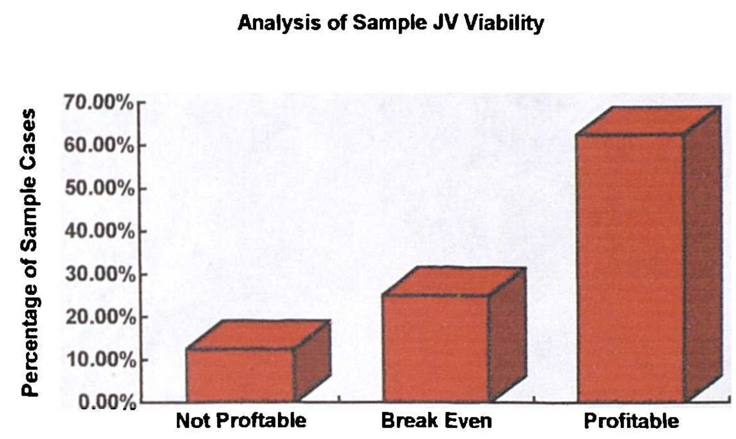
The term stage of development is not a perfect measure, although it is used frequently in the subject literature to indicate a position in the life cycle and the viability of JVs. Osland & Cavusgil (1996) explain the difficulties, 'There are no published results of random samples of the EJV population'.......'The use of subjective measures reflects difficulties in obtaining objective data, and awareness that measures such as profits are not directly comparable across different industries and stages in IJV life cycles'.

However, the important issue in relation to the representativeness of the sample is that all the stages of development should be present, which they are (see Figure 7.3), and that these should be representative of a range of JV age within the sample. Table 1.9(a) in Appendix Two shows that the *mean* age in the sample increases progressively with the stage of development i.e. *Establishment* = 3.5 years, *Growth* – 6.25 years, and *Mature* – 8.7 years. The min / max age range is large throughout confirming the indications in the literature that some JVs mature faster than others, however, the minimum age value increases through the stages indicating that there is a minimum period to the progression from one stage to the next. This element of the sample data significantly confirms the findings of Shaw & Meier (1993), insofar as the median age at the *establishment* stage is 3 years and the same value is the minimum age for progression to the *growth* stage. Shaw & Meier (1993) found that the change from the break-even point to the point of profit i.e. from the *establishment* to the *growth* stage took an average of 2.9 years. This results in a 97% comparison of the sample data hereto, and the findings of the above on the population. These findings also suggest a minimum sample size of 12 cases whereas there are 24 cases hereto.

(f) JV Viability

JVs in China which are not viable soon come under the scrutiny of the authorities, who may choose to impose their 'supervision' over the business, or they can impose deadlines or adjust targets. The definition of viability, however, goes beyond that in other countries, given that a JV may be profitable and growing, although 'failing' by not meeting targets. So it follows that 'non viable' businesses are soon taken under 'supervision' or taken over by the authorities and the JVs terminated, and thus disappear from the figures. It is inevitable, therefore, that some JVs in the population are in the process of struggling for such 'viability' and it is significant that one such case has occurred in the sample as being under 'supervision' whereas it is at *break even* (*'Beta'2)*, and a further 3 are found to be 'not profitable' although they are not under 'supervision'. The systematic removal of failing JVs from the figures, because they cease to exist as previously, creates an unsupported implication that the majority of JVs in China are successful, whereas they have been shown to have similar rates of failure to those in other locations (see Chapters Three and Four). In this respect JV failure in China has been *institutionalised.* The sample hereto, whilst it contains mainly 'profitable' cases, which detailed analysis of the case studies reveals are not as successful in all respects as the data and the following detailed analysis shows, is nonetheless representative of the randomly accessed population. An analysis of the incidence of JV viability in the sample is provided in Appendix Two Table 1.10 based upon the data matrix variable C 10 *'JV Viability'.*

Figure 7.4



Source : derived from the 24 case studies.

The sample data as analysed in Table 1.10 in Appendix Two finds that 37.5% of the sample cases are either not profitable or at break even, which confirms the findings of Speece & Kawahara (1995) and Hirano (1993) who found that one-third of JVs were not profitable. More specifically, Osland & Cavusgil (1996) found that 12% of cases in their study were losing money, which almost exactly coincides with the 12.5% of the sample cases hereto which are not profitable i.e. losing money. Similarly, the 88% cited by the authors as not losing money, coincides with the sum of those breaking even and those which are profitable in this research which amounts to 87.5% of the sample. A further significant comparison is made with the smaller scale work of Campbell (1989) who found that 79% of JVs in China were profitable.

A *mean* taken across these percentage comparatives (33 ÷ 37.5 x 100) + (12 ÷ 12.5 x 100) + (88 ÷ 87.5 x 100) ÷ 3 = 94.86, i.e. the sample data is say 95%

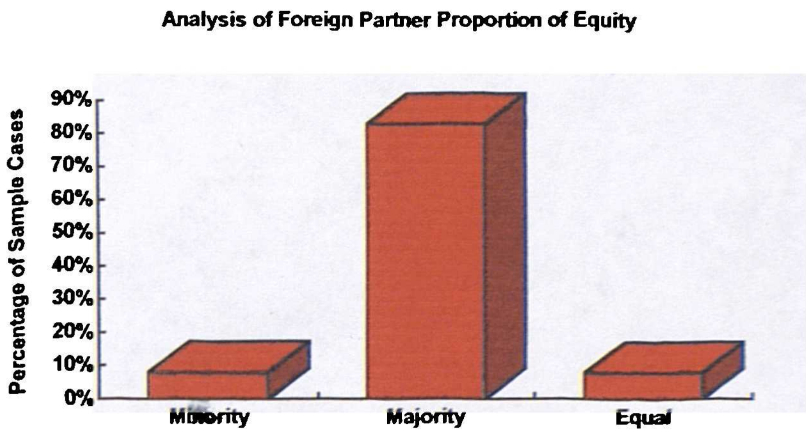
comparable to the three studies cited above. On the basis of the data provided by Osland & Cavusgil (1996) a minimum sample size of 22 cases is indicated with a maximum error of 7%, whereas there are 24 cases in the sample hereto.

(g) Foreign Partner's Proportion of Total Equity

The notion that a JV implies an equal participation is widely reported by researchers as not being the case in practice. In fact none of the JV cases hereto are equally owned with a local partner, although 2 of the *Gamma* JVs are equally owned with a Taiwanese partner. An analysis of Data Matrix variable C37 *Foreign Partner Proportion of Total Equity* is provided in Appendix 2 Table 1.11 and is the basis for Figure 7.5.

The greater than 80% incidence of foreign partner equity majority in the sample probably results from the perceived risk of majority-owning local partner excesses and the critical issue of technology containment (see Chapters Three and Four). The gradual relaxation of ownership controls outlined by (Van Den Bulcke & Zhang 1996), is reflected in the increasing number of foreign partners taking equity majority throughout the study period.

Figure 7.5



Source derived from the 24 case studies

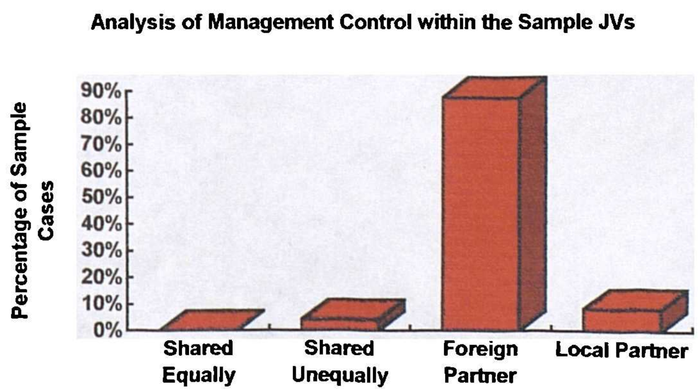
The authors found that in the 1989-90 period, 59% of foreign partners held a minority stake in JVs. Similarly, Pan (1996) reporting on the 1979-91 period found that only 45% of foreign partners held a majority stake. However, the same author later reported (Pan 1997) on the 1991-93 period, having found that the majority of foreign partners held a majority position after Tiananmen, and that US foreign partners had shifted from a 50 : 50 position to a majority in 67.2% of cases. Osland & Cavusgil (1996) found that all of their sample was increasing its equity, and a similar report has been made by China Direct Investor (1998) which found that 83% of its sample is increasing its equity.

The proportion of foreign partners found to have a majority stake in EJVs is 16% higher in the sample cases than in the literature reports of the population. The sample number hereto is sufficient to satisfy a 10% maximum error, based upon the frequency reported in the literature.

(h) Management Control

Overall management control tends to follow the distribution of equity in the sample JVs. Although a measure of management is often shared according to local specialisation. These tendencies are reflected in the following sample data which is derived by analysis of Data Matrix variable C 47 *Management Control*, and is provided in Appendix 2 Table 1.12 which is the basis for Figure 7.6.

Figure 7.6



Source : derived from the 24 case studies.

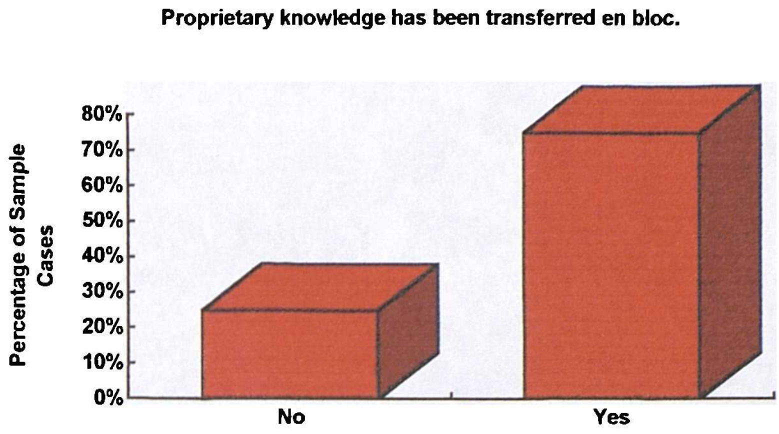
The high correlation of which with C 37 (*foreign partner's proportion of total equity*), suggests that this relationship is significant within the population (see also '*Management Strategies*' in Chapter Three - see also the analysis of hypotheses 2 and 3 later in this Chapter).

The sample data hereto finds that 87.5% of foreign partners acquired management control. This finding is the same as the *mean* of the findings of two studies in which Yan & Gray (1994) found that 100% of the JVs in their study involved foreign partner management control, and in another study in which Osland & Cavusgil (1996) found that 75% of the JVs in their study involved foreign partner management control and control of important functions. On which basis the sample hereto is significantly representative of the population, and the sample size meets the minimum requirement at the 7% level of maximum error.

(i) Proprietary Knowledge has been Transferred en bloc.

The incidence of technology transfer is a good indicator of the motives and strategies of the partners. One of the 'open door' foundation targets was the quality and modernity of the technology attendant to JV establishment. Partner contra-postures have evolved over time where the local side seeks to acquire and absorb high technology transfer, whereas the foreign side has learnt to guard and retain technology to maintain their essential contribution to the JV, and ensure continuity. So given these opposing positions it is inevitable that both sides will win some of the time. The evidence from the sample is that, whether proprietary knowledge is contributed or assimilated, the local side is considerably more successful in acquiring technology through JVs than the foreign side is at retaining it. Data Matrix variable C 59 is analysed in Appendix 2 Table 1.13, and reveals that technology is transferred en bloc in 75% of cases.

Figure 7.7



Source : derived from the 24 case studies.

This situation is as is reported in Chapters Three and Four and in the Case Studies, and is discussed further in detail in the testing of hypotheses numbers 9, 10 and 11, which study this proposition from a variety of perspectives.

Zhao (1995) found that the average share of technology licensing agreement i.e. licensing, technical consultancy, technical service, and co-production (JVs), between 1979 and 1991 was 74.5%, of which between 4% in 1979 and 15.8% in 1991 was disembodied technology. Therefore, approximately 63% of the value of technology transfer in 1991 was acquired through JVs. Zhao (1995) also found that a proportion of technology transfer to China was purchased or licensed, with the balance two-thirds being derived through JVs. The same research also found that between 1979 and 1988 a total of 15,919 agreements were signed of which 8,521 were EJVs and in addition a further 45 were co-production agreements. This indicates that 54% of foreign partners had transferred technology to their EJVs. A *mean* of the incidence in these reports i.e. 63% + 54% ÷ 2 = 58.5% indicates a sample size :-

$$n \quad \frac{58.5\ (100\ -\ 58.5)}{10^2} = 24$$

i.e. the sample size hereto is sufficient at the 10% level of maximum error.

2. The Testing of the Hypotheses.

This section tests the hypothetical propositions which are drawn from the findings of other researchers as detailed in the literature and discussed in Chapter Four, and detailed in Chapter Five Table 5.1, against the data derived from the case studies, interviews and questionnaires. Each hypothesis is presented as a proposition, with the importance and implications being explained as derived from the literature. The testing process is explained and referred to in the analysis which is performed and outlined in detail in Appendix Two. This is followed in each case by a statement of the results of the testing process as a summary of the findings. The following Table 7.4 details the hypotheses and provides a summary of the results for each hypothesis.

Table 7.4

The Hypotheses and a Summary of the Results

Hypothesis	Summary of Results
H1	
China JV establishment and operational costs are high and negatively affect returns	The potential exists in a significant number of cases for the local partner to increase establishment costs by negotia ting high values for his intangible cont- ributions. No high operational costs are identified, neither is there significant evidence of negatively affected returns. ROI, viability, and performance/ results relationships suggest that successful business formulae can be 'exported' to China and operated without any significant cost burden. Therefore, this hypothesis is refused.

H2

'Equity majority is often taken to acquire management control, although in practice this frequently falls short of free market self-determination'.

Management control is acquired as a protective strategy, to enable internalisation and containment of critical inputs. No severe targets, controls, or other imposed burdens are found, suggesting that JVs in China do have free market self-determination and are relatively free. Therefore, this hypothesis is refused.

H3

'Foreign partner management control hinders the optimal development of JVs'.

It is found that proprietary knowledge is transferred, yet it is 'contained', as is future technology. The local partner is found to be often marginalised in operational areas which limits his ability to transfer inputs, and such limitations refuse some inputs which situation is bound to be hindering JVs. Therefore, this hypothesis is supported.

H4

'Local partners who are SOEs (i.e. state-owned companies) do not necessarily provide national access.'

It is found that SOE local partners do provide market access albeit regionally concentrated, to the extent they have such access, and according to their level of involvement in sales and marketing management. Therefore, this hypothesis is refused

H5 *'The ability to meet export commitments and the acquisition of foreign exchange are affected by the foreign partners' international strategy'.*	A large proportion of JVs are found to fail to meet export targets, although newer JVs are found to have fewer targets. There is evidence that foreign partners focus on the domestic market and neglect exports, thus affecting their ability to meet export targets. Therefore, this hypothesis is supported.
H6 *The low level of commercial development and the historical supply system infrastructure limits market access penetration.* H6a *Market access penetration in China is expensive owing to the absence rarity of specialist agency networks which could provide product complementarity (i.e. greater marketing efficiency) and scale economies (i.e. lower sales costs).*	Distribution channels are few and under-developed. JVs are found to develop their own routes to market, owing to limitations to market access/ penetration. The cost of internalising distribution inevitably affects returns and causes JVs to become regionally intensive. These hypotheses are supported.
H7 *Advertising produces only a moderate positive effect on sales, and is most effective in promoting established products.*	Advertising is found to be correlated with success where it is appropriate, although no relationship with established products is identified. Activity is at low levels, static, and introductory and can only have a

moderate positive effect on sales. Therefore, this hypothesis is supported in the area of the effect of advertising on sales, although it is not supported with regard to established products.

H8

The Chinese consumer is frugal and seeks value, so price is the dominant marketing mix variable.

The sample JVs are found to recognise the high level of price and market sensitivity of the consumer, and the effectiveness of offering features of credit, quality, and service. Therefore, this hypothesis is supported.

H9

There is a consumer preference for foreign brand quality products over the utilitarian quality of domestic products. The acquisition of foreign brands, quality, and products are major motives of local companies in establishing JVs.

Local partners are found to form JVs to acquire brands, products and quality to replace utilitarian local products. The related proprietary knowledge and technology are found to be more sought after, and assimilated over time by way of involvement. Therefore these hypotheses are supported.

H9a

The acquisition of technology is the main motive of Chinese companies in forming JVs.

H10

The dissemination of proprietary know-how leads to conflict.

Interdependence between the partners is found to decrease over time. Inter partner conflict is found to result from acquired self-sufficiency in the area of proprietary know-how. Therefore, this hypothesis is supported.

H11

The transfer of technology provides the opportunity for the emergence of new wholly domestic competitors.

H11a

Continuing JVs are ones which remain dependent on the foreign partner for proprietary know-how and technology inputs.

H11b

The retention of brands, components and formulated inputs ensures income and leverage for the foreign partner.

Whilst planned knowledge transfer tends not to result in an independent level of competence, and unplanned assimilation is found to result in an equal level of competence, together they are found to result in a higher than planned level of potential independence. There is also evidence to support the proposition that knowledge retention promotes interdependence and longevity. There is also support for a materials and component inputs strategy. Therefore, these hypotheses are supported.

H12

An entry motive to access the market size usually fails, although the market which is accessed usually produces JV performance at a high level of establishment expectations.

H12a

Market access and performance are

It is found that JVs achieve market access to the extent that they are able and allowed to achieve, thus supporting hypothesis H12. This is confirmed by the investigation and findings into the proposition that physical and infrastructural limitations are not major impediments to market access, thereby

frustrated by physical and infrastructural limitations.	refuting hypothesis H12a. However, provincial protectionism is found to exist as an impediment to JVs which have a widespread market access strategy, thereby supporting hypothesis H12b.
H12b *The main impediment to whole market access is politico-economic strategy (i.e. provincial protectionism and regional strategic development.)*	
H13 *JVs formed at the provincial level in partnership with local entities attract less attention from the authorities.*	It is found that JVs formed at the provincial level receive more reasonable targets most often with protectionist benefits. Therefore, this hypothesis is supported.
H14 *"Whatever money is being made by JVs in China is not being made in anywhere near the quantity, or with anywhere near the ease which had been expected".*	JVs operate at 'medium' and 'high' levels of efficiency and produce modernising synergies which are correlated with performance, and and found to be favourably comparable with other locations. Although, the level of contributions is such that there cannot be any 'easy money' being made. However, given that this proposition is primarily based upon the quantity of money, then this hypothesis must be refused.

H15

China's cultural traditions suggest that relationships between customers and suppliers may be more important than they are in western markets. The prevalence of 'Guanxi' suggests that sales force marketing has a positive impact on profitability

It is found that JVs in China respond to market characteristics in the provision of quality and brands, and to consumer price sensitivity. Performance is correlated to observance of the cultural characteristic of 'Guanxi' which requires proximity to the consumer, and which is achieved where appropriate by sales force marketing. Therefore, this hypothesis is supported.

H16

R & D intensity varies by industry / partner / operation length, and has a minimal positive effect on JV performance, and a negative effect on accounting performance.

R&D in China varies sectorally and, therefore, by industry and partner type, with the frequency being greater in the *'mature'* phase. No measurable effect on performance is identified, although there must be a negative effect on accounting performance. Therefore, this hypothesis is supported.

H17

JV size has a positive impact on local market performance.

Appropriate and optimal size are found to have an influence on performance, resulting in small units often established as multiples being regionally distributed, which enable flexible and adaptive strategies. Local factors affect JV size leading to an appropriate size to the local market. Therefore, this hypothesis is supported.

H18	
The age of a JV and the duration tenure of the investment are correlated to JV performance.	The stage of development, which is often a function of JV age, is found to be correlated with performance, with higher levels of performance coinciding with maturity. Longer tenure is correlated with higher performance. Therefore, this hypothesis is supported.
H19	
There is an interaction between pricing strategy and length of operation.	No significant relationship between pricing strategy and length of operation is identified. Therefore, this hypothesis is refuted by the findings.
H20	
Industry sales and profitability growth has a positive influence on IJV accounting return and domestic sales growth, and a negative impact on IJV exports.	It is found that JVs concentrate on the growing domestic market opportunities at the expense of exports. Therefore this hypothesis is supported.
H21	
JV performance in China is correlated to the level of synergy derived from the complementarity between the partners.	It is found that the synergistic interaction of inputs is highly correlated with performance, continuity and security of tenure. Therefore, the findings herein support this hypothesis.

H1. *China JV establishment and operational costs are high and negatively affect returns.*

The importance of this hypothesis cannot be overstated because it goes to the root cause of the establishment of IJVs in China, in other words, are there high cost burdens peculiar to IJVs in China which negatively affect returns?

The issue of whether establishment costs are high is case specific, and it has been identified in the case studies and the literature hereto, that both the local and foreign parties have the opportunity to negotiate a value for their inputs, to acquire a proportion of the JV equity. Generally, such arbitrary valuations are on intangible inputs like the *use of site*, *distribution channels*, *technology*, *equipment*, and *brands*. It must be assumed that such negotiations can only inflate the realistic asset value, given that neither party will likely negotiate a lower than possible value for his contributions. So whilst intangible contributions can create an inflationary valuation, the contribution of finance cannot be over-valued, although it may cause the other party to over-value his intangible contributions. Worse still might be where both parties have some measure of intangible inputs, such that negotiation leapfrogging takes place. On this basis it may be assumed that the more frequently and proportionately that the parties contribute finance, either entirely or in greater part, then the less escalated are establishment costs likely to be.

Whether one side or both sides take advantage of arbitrary valuation opportunities of their contributions, the result would likely be higher establishment costs. Such costs reflect on future ROI, although it is operational costs which directly affect the profitability of the JV. These costs are relatively large in number, and often peculiar to China. The literature and the case studies have identified such areas of direct and indirect cost burdens as developmental loans, production / volume / distribution controls, product adaptation, extended credit, and the costs involved in accessing the market.

The Case Study data indicates that the sample JVs have a mean production cost advantage of 27% over similar operations in other locations, although prices are variously reported as being in line with costs at between 15% and 30% lower. Profit on turnover is found to be comparable to that in other locations which indicates a relatively similar performance. However, whilst the above suggests that any high operational costs which may exist are not higher than in other locations, such that returns would be negatively affected, it could be that such performance may not be comparable in terms of ROI, or that the business may not be viable in terms of other cost burdens such as establishment costs.

Method

In testing for the opportunity for elevated establishment costs an analysis is made of the frequency, proportion, and type, i.e. intangible or valuable, contributions made by the partners in Appendix 2 Tables H 1(a) and H 1(b). These variables are then operationalised in a cross-tabulation Table H 1(c) to reveal the correlated incidence and frequency of contributions which can raise establishment costs, and thus negatively affect returns.

A variety of analyses are made of variables which have the potential to raise operational costs. Table H 1(d) investigates the incidence of loans raised locally by JVs. Table H 1(e) analyses the incidence of various controls imposed on JVs, the costs of product adaptation and the provision of extended credit are shown by Tables H 1(f) and H 1(g) respectively, and Table H 1(h) considers the burden which may be borne by JVs in accessing distant regions of the market.

The suggestion from the foregoing is that there are factors which have the potential to influence the operational costs of JVs in China. The question of whether these are 'high' or 'higher', because this is inevitably a relative issue, is addressed by way of the cross-tabulation in Table H 1(i), which operationalises variables involving *JV ROI as compared to other locations*, *JV viability*, and *JV performance*. The motive of this analysis is to reveal the incidence of performance levels of the sample JVs at various levels of ROI as compared with those in other locations, at various levels of viability.

However, the evidence from Table H 1(i) may be incidental and a multivariate regression analysis is performed in Table H 1(j) to test if the relationship between the variables exists at a significant level of confidence. The aim being to determine whether JVs in China perform as they would elsewhere, in which case there would be no measurable negative effect on returns and this would be indicated by a significant relationship between the variables. If no measurable relationship were found then the assumption would be that there may indeed be factors peculiar to the operation of JVs in China, such as high establishment and operational costs, which have the potential to affect JV performance in China.

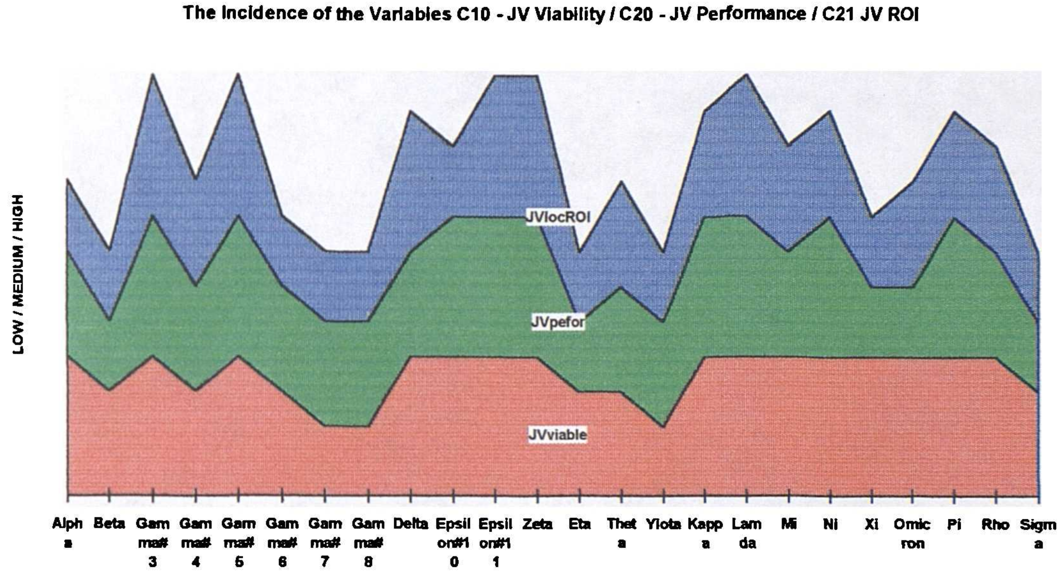
Results

The findings are that the balance of negotiable inputs is contributed by the local partner, and so he has the significantly greater potential to elevate establishment costs. However, owing to the lack of a market valuation on local partner inputs and the unique circumstances in each case, only anecdotal evidence from the case studies indicates that establishment costs have been inflated during the negotiation in the majority of cases. In terms of operational cost burdens it is found that local loans, and a variety of controls do not pose a burden on JVs in the majority of cases. Neither is there significant evidence that costs related to product adaptation or distant market access negatively affect returns, and in any event these would both be costs which would also be common to competitors, and are often included in national pricing. The issue of extended credit is found to be more important with a relatively high proportion of the sample providing such a facility to customers. However, this issue is common in China owing to the relative underdevelopment of the banking sector, and whilst it is, therefore, not a factor in competitiveness, it is an issue not as prevalent in other locations with which the performance of JVs in China may be compared. The scale of the burden, however, is unlikely to be responsible for the negative effect contemplated in this hypothesis, given that half of the sample considers the provision of credit to be of *low* to *medium* importance.

The overall view is that whether high establishment or operational costs exist or not, it is found that two-thirds of the sample JVs are profitable, with almost 60% of all the sample cases having similar or higher ROIs when compared to other locations.

Furthermore, it is found that there is a relationship between *ROI as compared to elsewhere*, *JV performance*, and *JV viability* (see Figure 7.8), which suggests that successful business formulae can be 'exported' to China and operated successfully without any major detrimental cost burden being apparent. It is possible that other influences e.g. efficiency levels or strategic posture, may be disadvantaging JVs in China, which might be expected to be more successful. If such influences exist they would be addressed by the other hypotheses hereto. However, no such significant influences have been identified within the testing regime of this hypothesis and, therefore, this hypothesis must be rejected.

<u>Figure 7.8</u>



Source : Derived from the 24 case studies hereto. The variable data is ordinal viz. : C10 - *Non-profitable = Low Break Even – Medium Profitable High* —— C20 - *Low Medium High* ---- C21 - Low / Similar = Medium / High. This figure illustrates incidence and is not proportional.

<u>H2</u> *Equity majority is often taken to acquire management control, although in practice this frequently falls short of free market self-determination.*

The majority of JVs in China are formed with SOEs which are widely reported in the literature to be outdated and failing, with a lack of modern management and a servile production and supply mentality, left over from the centrally-planned-economy days prior to the liberalisation of the economy (Chapters Three and Four). Most foreign partners tend to be successful MNEs with a high level of management skills and proven strategies, which have evolved over time, as have the skills in their people to implement them. The foreign partner invests critical assets including access to brands, technology, and markets, all of which including investments could be lost, and could empower a competitor in the absence of foreign partner involvement in the management of the JV.

The majority of foreign partners, therefore, acquire majority equity in their JVs and thus effectively 'buy' management control. This hypothesis is important because it investigates the crucial value relationship between whether the level of investment in acquiring management control actually produced results in free market self-determination. Or whether there are factors which limit free market self-determination by creating inefficiencies, burden JVs with costs, limit their income, growth, control, market access, and sector. It has been shown, for example, that managers in SOE controlled JVs do not have the autonomy of their counterparts in market economy countries, and suffer from government interference and intervention based upon targets and JV approval terms. The testing of this hypothesis investigates the incidence of significant limitations to management control and self-determination.

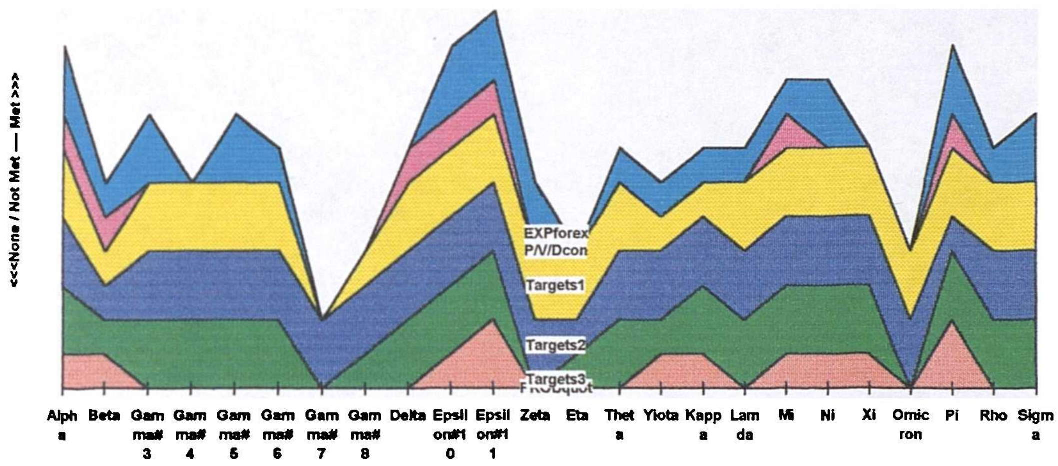
Method

Table H 2(a) in Appendix 2 establishes the fact that the majority of JVs in China are established with SOEs, which companies are widely reported to be outdated and failing. Table H 2(b) investigates their motives in forming JVs, and similarly Table H 2(c) investigates the motives of foreign partners. The concern over the competence of local partners in terms of management is investigated in Table H 2(d) where it is found to be of a sufficient level to run the business in 75% of the sample cases, which also implies, of course, that it may also be good enough to act opportunistically. Management control is identified in Table H 2(e) to have been taken by the foreign partner in almost 90% of the sample cases. The issue as to whether equity majority coincides with management control is investigated in Table

H 2(f) and found in the affirmative in 87.5% of the sample cases. In determining whether the foreign partner actually has control of critical management functions, and in furtherance of his protective strategy, certain critical functions are analysed in Table H 2(g) *technical management*, H 2(h) *sales and marketing management*, H 2(i) *financial management*, and H 2(k) *export management*, in which it is found that the majority of foreign partners in the sample have retained control, resulting in no lack of self-determination in these critical business areas (see also hypothesis H3 hereafter). The foreign partner, however, has often relinquished control in areas best served by the local partner, as identified in Tables H 2(l) *legal* management and H 2(m) *Chairmanship*

Figure 7.9

The Incidence and Meeting of Quotas, Targets, and Controls on JVs



Source · Derived from the 24 case studies hereto. The variable data is ordinal Viz. : C83 - PRODquot = Production Quotas - *Min Max None* --- C85 - Targets3 - *Not Met Met-Exceeded None* — C18 - Targets2 - *Unreasonable Reasonable None* — C17 - JV Approval / Establishment Targets - Not Met / Met - Exceeded / None — C46 - P/V/D/ Controls - *Yes / No* — C84 - Export - Foreign Exchange Target - Not Met / Met - Exceeded / None.------- **Incline** indicates that quotas, targets and controls are imposed on JVs and that they are met or exceeded. ----- **Decline** indicates that either quotas, targets and controls are not met or none are imposed. This figure illustrates incidence and is not proportional.

This analysis also investigates the burdens imposed upon JVs and identifies that over 70% come under the control of local government agencies (Table H 2(n) and Table H 2(w)) which are known to be more lenient than central bodies., The control of these Authorities over JVs is largely by way of targets which are imposed at the time of establishment and are periodically reviewed and often adjusted. However, the analyses in Table H 2(o) *production quotas*, Table H 2(p) *sales / turnover targets*, H 2(q) *targets are reasonable*, Table H 2(r) *JV approval / establishment targets*, Table H 2(s) *price volume distribution controls*, and H 2(t) *export / foreign exchange targets*, all find either that the majority of JVs are not subjected to targets, or that they meet or exceed them, or that they are reasonable (see Figure 7.9).

Results

The rationale for the establishment of JVs in China is found to be complementary between the partners in a significant majority of the sample cases, and that the foreign partner does acquire equity majority coincident with management control, and does so largely as a protective measure given the level of competence in the sample local partners. However, there appears to be *no limitation* to the internalisation and containment of critical functions by the foreign partner. Neither are there any apparent sufficiently frequently occurring *restrictions or limitations* imposed upon a controlling foreign partner by the authorities in the areas of quotas, targets, controls, or achievement levels, as would amount to a loss of free market self-determination. Naturally, there are some controls placed on a minority of the sample cases, on the basis of sectoral planning e.g. foodstuffs prices, drinks, and advertising, founded upon consumer protection and price controls. Although these are not the norm, which in the context of the testing of this hypothesis and on the basis of the internal structural, and the external authority influences discussed above, the sample JVs are relatively free. On which basis the proposition in this hypothesis must be refused. However, other possible impediments to self-determination exist e.g. the continued involvement of the authorities and the relevance of their frequent relationship to the local partner, the ability of the authorities to influence the JV by way of targets and controls, strategy efficiency, environmental influences, and market forces, some of which propositions are tested elsewhere herein.

<u>H3.</u> *Foreign partner management control hinders the optimal development of JVs.*

The proposition in this hypothesis suggests that where a foreign partner acquires management control, his containment and internalisation of critical knowledge to the exclusion of the local partner in the interest of protecting his investment and proprietary inputs, has a detrimental effect on the development of JVs. A very important principle is contained in this proposition in that the foreign partners' strategy on the issue of 'containment' and internalisation, and the alternative of sharing and delegation is in effect a balance of risks. There are, on the one hand, the risks associated with internalisation in that valuable inputs and synergies may be lost in the interest of protecting proprietary knowledge, and this could indeed hinder the development of JVs. On the other hand, there are the risks that the opposite strategy may result in loss of status and influence within the JV, which could also lead to the possible creation of a competitor, and ultimately also hinder the development of JVs.

The level at which the balance is struck is obviously case specific, but there is a possibility that JVs formulate their strategies as knee-jerk reactions to reports of competitor creation, cloned products, and self serving local partners. This hypothesis is tested to evaluate the level of internalisation and resulting exclusion as related to loss of inputs, as balanced against the available synergies with the local partner, based upon the value of his inputs.

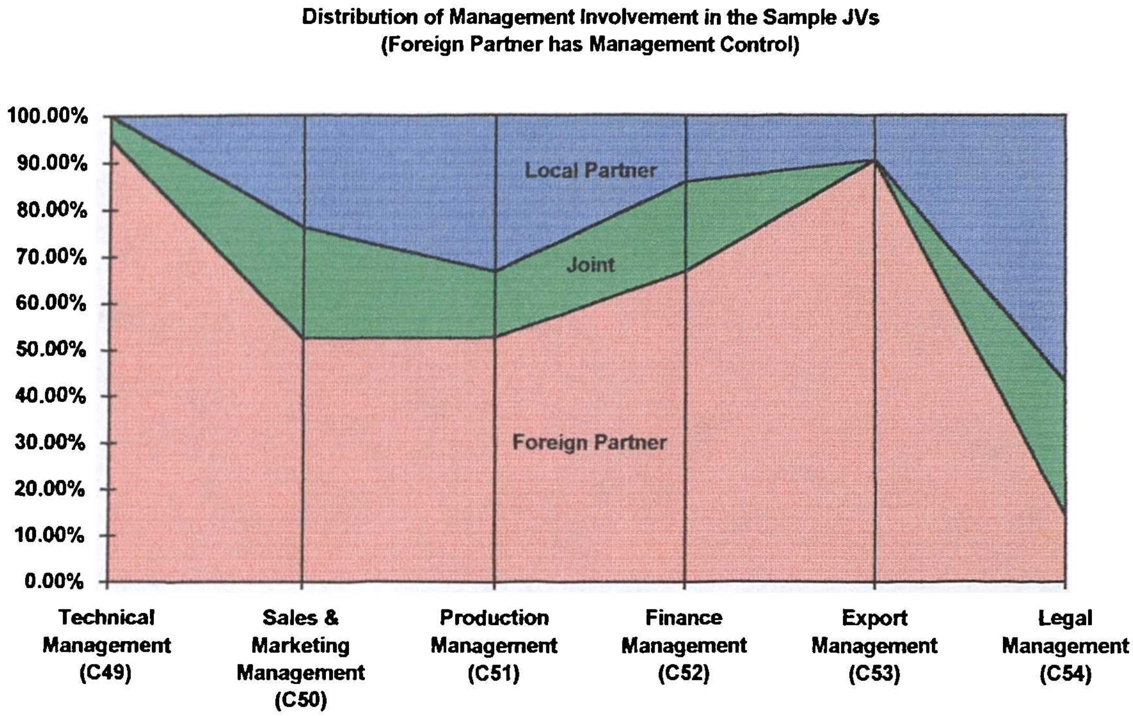
Method

The willingness of foreign partners to transfer technology clearly goes to the root of this hypothesis, and this is investigated by an analysis in Table H 3(a) to reveal the extent to which foreign partners transfer proprietary knowledge. However, such transfer is most often to the JV as an entity, and the sample JVs are most often management controlled by the foreign partner, which in itself implies a containment strategy. An analysis is made in H 3(b) to determine to what extent such technology transfer is contained within expatriate staff. Table H 3(c) then tests the quality of what is being transferred i.e. what is its realistic value to the JV?, and Table H 3(d) investigates whether the foreign partner has withheld a superior technology. Given that there is a question as to whether what is transferred is contained or lost, Table H 3(e) analyses the extent of assimilation by the local partner of both transferred and 'acquired' knowledge as a determinant of the level of competence, i.e. the developed risk. Such acquisition by involvement is dependent upon the participation of local partner personnel and Table H 3(f) analyses the extent of employee transfer to the JV.

The other side of the analysis involves the JVs' benefits from the partner and the extent of his contributions according to his allowed involvement, i.e. the possible synergies. Table H 3(g) analyses the frequency in the sample cases of when the local partner contributes to sales through his regional operations, and H 3(h) shows the opportunity the local partner has to make such contributions according to the frequency of his involvement in the sales and marketing operations of the sample JVs.

The willingness of the foreign partner to involve the local partner in critical proprietary knowledge is revealed by Tables H 3(i) and H 3(j) which analyse the location and mutual involvement of the partners in R&D, which shows that the foreign partner clearly attempts to internalise such knowledge. However, there is also a shortfall in critical contributions by the local partner in the area of market access, although this is probably more a case of his inability to contribute than of his unwillingness to do so. Tables H 3(k) and H 3(l) *the local partners' business origins*, and *the local partners' contribution of market access* respectively, show that the local partners' origins are in a similar business in a significant number of the sample cases, and yet he contributes a much lower proportion of market access. Similarly, with distribution channels in Table H 3(m), the great majority of the sample JVs have had to resort to existing or developed routes to the market, not having received such from the local partner, despite the mean 14.5% of market share shown in Table H 3(n). Similarly, with local partners' influence as analysed in Table H 3(o), it is found that 56.5% of the sample JVs' local partners did not contribute effective local influence despite their 85% origins in a similar business as shown in Table H 3(k). Table H 3(p) is a cross tabulation of C143 *distribution* *channel access* and C144 *the cost in accessing distant regions limits market access*, the purpose of which is to investigate the relative efficiency of distribution channels according to their source. The indications from which are both that the local partner contributes access *whenever the management controlling foreign partner allows him to do so*, but also that his contributions are the most economically efficient, note that those *inherited* are most economical and those *existing* are least economical.

Figure 7.10



Source : Derived from the 24 case studies hereto. Mean sectoral involvement across all 6 variables ------ Local Partner = 23%, Joint = 15%, Foreign Partner = 62% i.e. Local partner is involved 38%, Foreign partner is involved in 77%.

Results

The evidence is that whilst it is claimed that proprietary knowledge is transferred to the JVs in 75% of cases, it is found to be contained within expatriate staff in 46% of all such cases. In other words, in only 34.5% of all the sample cases was proprietary knowledge allowed to reach the local partner. Similarly, the technology transferred is found to be the state of the art for China in a significant majority of cases, and yet the majority of the sample foreign partners retain a superior technology and proprietary knowledge such that a little over a third of local partners have acquired an independent level of competence. This containment strategy is compounded by the obvious restriction of future technology, as is evidenced by the R&D strategies employed by foreign partners. All of which indicates that the foreign partners in the sample JVs actively seek to marginalise the local partners irrespective of which of the parties has management control. It is clear from Figure 7.10 that the sectoral involvement of the local partner is reduced in areas where containment and retention are most common.

The local partner whose origins are in a similar business in China in a large majority of the sample cases, is only allowed to participate in the sales and marketing management function in about half of the cases. As a result he contributes sales from his regional operations in about an equal number of cases, the assumption being that local partners would contribute more frequently if they had the opportunity, which is supported by the finding that the local partner has market access in a larger number of cases. It is also found that the local partners' contribution towards sales is significant and highly economically efficient. Similarly, the local partner is only able to contribute distribution channel access in an even lesser number of cases, and only able to show the effectiveness of his 'influence' in about an equal frequency to his involvement.

On balance, it appears that the containment strategy of the foreign partner is well intentioned and reasonably effective in the limitation of transferred competencies. Although where containment is taken to the extent of local partner involvement in operational areas, the likelihood is that it precludes some local partner inputs, and hinders the optimal development of JVs. On this basis the proposition in this hypothesis is supported.

H4 *Local partners who are SOEs (i.e. state-owned companies) do not necessarily provide national market access.*

This proposition has great bearing on the strategy of establishing JVs in China, because the majority of the sample JVs are formed with SOEs, with the majority foreign partner motive being market entry. So if SOEs do not provide market access then the majority of JVs cannot achieve their entry goals, and this strategy and structure must be flawed. It is widely reported that SOEs are tightly controlled by the authorities, and integrated within a national strategy. This can mean that their operational areas are restricted, resulting in a lack of market access and self-determination, and that their management authority is limited, amounting to a lack of autonomy.

It follows that SOEs can only provide what they have in terms of market access, and they can only do that when they are involved by their partner in sales and marketing (see also hypothesis 2). This proposition must be founded upon the extent of market access possessed and contributed by the local partner, the focus of his market share in identifying the type of market access possessed and contributed by the local partner, the incidence of varying levels of market accessed in relation to *inherited* or *developed* distribution channels, and the efficiency of the local partners' regional operations in producing sales.

Method

The examination of the data as related to this proposition establishes that the majority of local partners are SOEs or provincial government companies, (H 4(a)) which have the main motive of acquiring products and technology (H 4(b)), which is unlike the foreign partners' main motive of acquiring market access (H 4(c)). Table H 4(d) finds that over 50% of the sample local partners have national market access, and a mean market share of 12.4%. Furthermore, as the majority (85%) of the local partners' businesses originate in a similar industry (H 4(e)), and that local suppliers pre-existed the JVs in almost 90% of cases (H 4(f)), it is reasonable to assume that the local partners' extent and type of market access would be appropriate to the sample JVs.

The market share of JVs is investigated in Table H 4(g) and H 4(h) which find that the mean of national market share of the sample JVs is 12.5%, whereas their regional market share is at more than twice this level at 27.5%, suggesting that JVs are regionally concentrated. However, this latter point alone does not prove that the

JVs have not received such regional access from the SOE partners. A cross tabulation in Table H 4(i) consisting of C138 *the local partner regional operations* and C143 *the method of acquisition of market access*, whilst holding C140 *the market accessed* as the control variable, reveals that the market access derived from the local partner reduced proportionately further away from the home province, in line with what is known of SOEs in that they are historically regional production / supply units. The introduction of the variable C50 *the frequency with which the local partner is involved in sales and marketing*, into the same previous analysis H 4(i) finds that where the local partner has been involved in sales and marketing, and distribution channels have been inherited by the JVs from the local partners, then all sales have involved the local partners' inputs. Where *existing* distribution channels have been used, then 40% of sales have involved the local partner, and where distribution channels have been *developed*, then over 25% of sales have been generated in areas involving the local partner. Overall 42% of all sales involve the local partners' 'routes' to the market, but then only in those cases where he is allowed to participate, and therefore to contribute market access.

Results

The majority of SOEs in the sample have some national market access which would be appropriate to the JVs. Although, the SOEs are found to be regionally concentrated units, and so are the sample JVs, and it is found that the sample JVs' sales, which involve the local partner, reduce progressively further away from their regional concentration. It is also found that sales are correlated to the local partners' level of market access and distribution channels, according to the level of participation they are allowed in sales and marketing, but only when they have the opportunity to contribute. Therefore, it follows that the local partners, who are most often SOEs, do provide national market access, albeit regionally concentrated, to the extent that they have it, and to the extent that they are involved in sales and marketing. Therefore, this hypothesis must be refused.

H5 *The ability to meet export commitments and the acquisition of foreign exchange are affected by the foreign partners' international strategy.*

The pressure to export has been lifted from JVs somewhat since the regulations related to JV foreign exchange sufficiency being fulfilled by way of exports were changed in 1996. The current system allows JVs to acquire foreign exchange to repatriate profits, or to pay for imports provided they maintain current account surpluses. However, the mechanism for the imposition of export targets remains in place, and this research confirms what is widely reported in the literature, in that export and some foreign exchange targets continue to be imposed on newly established JVs, although with lesser frequency than previously.

The importance of this hypothesis is based on the fact that whilst the majority of existing JVs are subject to export targets, a large proportion of them are failing to meet them. Whether or not this contravention of the establishment terms is waived periodically or not by the authorities, as is common today given the softening of the regulations related to foreign exchange being derived from exports, the fact remains that the authorities have powers to 'supervise', take over, or dissolve JVs which do not meet targets. Therefore, JVs which have export and foreign exchange targets should aim to meet them, but the evidence from this research confirms the frequently reported situation, that many JVs concentrate on the local market at the expense of exports. Indeed there are indications revealed in the testing of this hypothesis that some JVs actively resist exports in spite of cost advantages, clearly for external motives, which affect the ability of JVs to meet their commitments.

Method

The analysis in Table H 5(a) goes to the root of this analysis, in identifying the frequency with which the sample JVs are subject to or perform on targets in the area of exports and foreign exchange. The findings are that about half as many fail to meet targets as are subjected to them, and less than 40% of the total meet or exceed targets. The situation as related to in-China performance (H 5(b)), however, is entirely different with only 40% as many JVs being exempt of domestic targets as compared with exports, and yet only half as many failing to meet targets, with over

70% of all the sample JVs either meeting or exceeding domestic sales targets. This indicates that JVs concentrate more on the domestic China market which is consistent with the dominant market entry motive in the sample. The ability to so direct the JV is derived from having management control and Table H 5(c) shows that foreign partners have such control in 87.5% of the sample JVs. Clearly though management of export activities would have to be retained by the foreign partner imposing a domestic concentration, and Table H 5(d) finds that an equal 87.5% of the sample JVs retain export management within the controlling foreign partner. Table H 5(e) finds that there is no cost advantage in domestic concentration given that a mean cost advantage of over 28% would be most useful in export markets. There also appears to be no product standard or quality limitations revealed by Tables H 5(f) and H 5(g) respectively. Neither is there a product identity limitation given that almost 80% of the sample JVs produce the foreign partners' international brand products, and very little export is carried out by the JV itself (Tables H 5(h) and H 5(i)). Neither does a controlling foreign partner allow the local partner to export local production through his own export channels (H 5(j)) in the majority of cases. In the few cases where 'new' brand products have been created, the foreign partner does not incorporate these into his export channels (Table H 5(k)). Product adaptation is not carried out in over 40% of cases, and only 12.5% of cases engage in extensive adaptation, which may be a limitation to exports.

Table H 5(m) is a cross tabulation between C9 the *stage of development* and C84 *the incidence of targets* for export and foreign exchange, and investigates the incidence of targets and their achievement according to the stage in which JVs are in. The findings of which are that indeed newer JVs are subjected to targets less frequently than older ones, and that 33% of the total fail to meet targets (i.e. 47% of those subjected to targets). Table H 5(n) analyses the same data as against domestic sale targets and finds that newly established JVs either do not have targets or are meeting them. Whereas where domestic targets are being met, over 55% of *growth* and *mature* JVs are failing to meet their export commitments. It is also found that where there are no domestic targets, none of the *growth* and *mature* JVs are free of export commitments indicating the advantaged position of newly established JVs.

Results

The sample JVs are approximately equally divided between those not having export targets and those having and meeting them, and those failing to meet them. Although newer JVs have fewer export targets and foreign exchange pressures than established JVs. The fact that foreign partner management control coincides with the containment of export management, and the limitation of export channel variations, without there being any significant product difference in terms of standards, brands, or quality, suggests that the foreign partners are focusing the sample JVs' activities on the Chinese domestic market, despite there being a clear cost advantage in export markets. The evidence that established JVs clearly experience the greatest frequency of export targets explains why they most often fail to meet them. Although they are shown in Table H 5(n) to be performing many times better in meeting domestic targets than export targets, suggesting that their international strategy towards the China market affects their ability to meet the requirements in terms of exports. Therefore, this hypothesis must be supported.

H6 *The low level of commercial development and the historical supply system infrastructure limits market access penetration.*

There is a low level of commercial development in China, and particularly of distribution channels which are still dominated by the supply system infrastructure of the pre-reform period. Whilst it has been found in earlier hypotheses hereto that the local partners contribute whatever market access they have, they are largely SOEs which are heavily dependent on the established channels. So the access they provide is concentrated on *delivery* rather than *sales*, and is usually regionally intensive given that most SOEs are historically 'local' supply units. This proposition is very important because the majority of foreign partners enter China with a market access motive, and an investment and establishment strategy based upon an expectation of accessing the market size. Any inability to access the market upon which premise the establishment of a JV is made resulting from situational circumstances, can result in an inappropriate entry strategy and heightened risks.

H6a *Market access / penetration in China is expensive owing to the absence rarity of specialist agency networks which could provide product complementarity (i.e. greater marketing efficiency) and scale economies (i.e. lower sales costs).*

The level of underdevelopment discussed above manifests itself most notably in the lack of functional components of distribution channels such as wholesalers, distributors, and specialist agents, who would provide local market knowledge, customer contacts, stockholding facilities, and delivery capability. They would also typically purchase product, thus avoiding a substantial investment as well as costs to the JV. The typical product complementarity of such channel components would also facilitate scale economies within the channel such that efficiency and competitiveness were maximised.

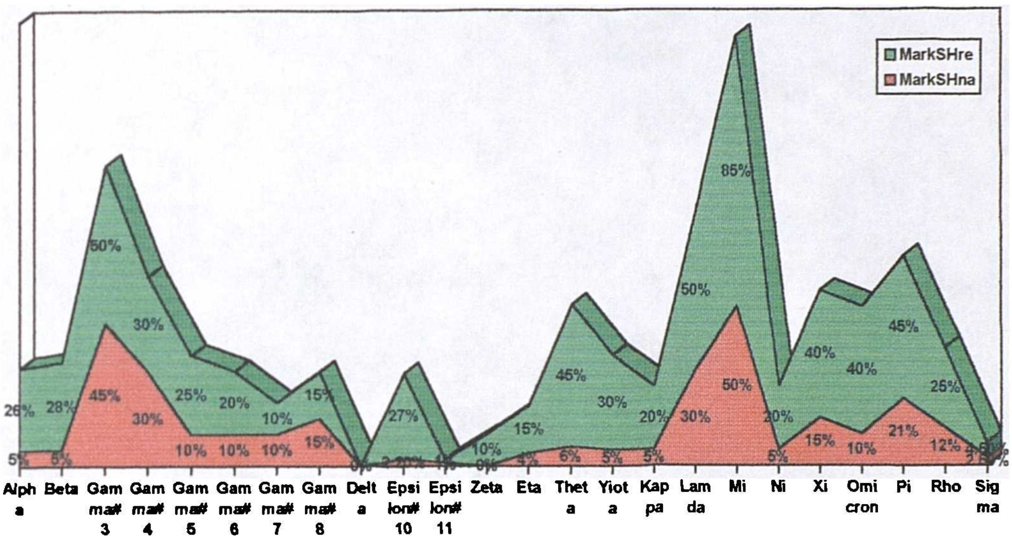
However, the majority of the sample JVs have been unable to market their products effectively through existing channels and have set up their own routes to market. The importance of this hypothesis is that it is proposed that there is in the market a level of underdevelopment which could preclude effective market access. The creation of distribution channels has been carried out by several of the subject JVs hereto, and they have accessed the market successfully. However, this must be a balanced argument because the high level of investment required to internalise distribution channels, can result in extraordinary costs which can burden competitiveness, and thus affect the extent and penetration of market access.

Method

Table H 6(a) finds a high level of similarity in channel usage between the sample JVs and their competitors, which is indicative of the lack of variability and underdevelopment, and results in many of the sample companies developing their own routes to market. The low level of commercial development suggested in this hypothesis is highlighted by the fact that the majority of channels used are similar, and yet Table H 6(b) finds that the majority of these channels have been developed by the sample JVs, which suggests that the low level of development limits the opportunities for channel development. Table H 6(c) seeks the extent to which the channels used by the sample JVs enables geographic coverage, which is an important distinction given that it is known that the majority of SOE partners are 'local' firms. Analysis H 6(d) finds that 50% of the sample JVs receive sales from the local partners' regional operations, although further investigation reveals that the mean value of these sales amounts to only 8.75% of the total, which indicates the level of contribution allowed to be made by the local partners, and also the relative level of efficiency available through those channels.

Figure 7.11

National Market Share and Regional Market Share of Case Study JVs.



Source Derived from the 24 case studies hereto — The data is interval data contained in variables C91 and C92 in the Data Matrix — C91 - Market Share Nationally (%) (MarkSHna)— C92 - Market Share Regionally (%) (MarkSHre).

There is bound to be an additional cost in accessing distant regions, although this is not clearly significant in the analysis in H 6(f), because of the *HQ* and *nearby* intensivity of the market accessed. This latter point which also evidences the local characteristic and underdevelopment of distribution is evidenced by the difference between the analyses in H 6(g) the *national market share* and H 6(h) the much larger *local market share* (see also Figure 7.11). The additional costs resulting from commercial underdevelopment involved in accessing distant regions is aggregated on national prices in the majority of cases (H 6(i)) and must affect competitiveness against local competitors who are locally intensive. These costs are investigated in Tables H 6(j) and found to partly (33% of cases) result from the need to hold local stocks, the regional location of sales staff (H 6(k)), the maintenance of local offices (H 6(l)), and the occasional use of commission agents (H 6(m)). The effect of these factors resulting from the underdevelopment of the market exacerbate the high level of price sensitivity investigated by Table H 6(n).

Results

It is found that distribution channels are few and underdeveloped resulting in the majority of the sample JVs having to develop their own routes to the market, although the low level of commercial development frustrates variability and economy and, therefore, inevitably raises costs, resulting in turn in heightened levels of price sensitivity. This also affects the extent of market access and the depth of penetration enabling the sample JVs to access the widespread market only by investing in creating routes to the market, the result of which is that the majority of JVs remain regionally focused. The variety of costs involved in addressing the market by internalised means results in high costs in regional establishment, staff, stocks, and commissions which also result in costs and lack of efficiency which make market access and penetration expensive for the sample firms. Therefore, this hypothesis is supported.

H7 *Advertising produces only a moderate positive effect on sales, and is most effective in promoting established products.*

The importance of this hypothesis is as a comparative indicator of the sensitivity of the market in China to common marketing strategies, by the study of the influence of a well understood marketing mix variable within the context of the sample JVs. It is clear that if the market is still dominated by the supply system mentality, then it will not easily be sensitised to promotional activity. Whereas, if the market is sensitive to such strategies then the indications would be that it would also be amenable to other strategies.

Advertising is not entirely new to the Chinese consumer given the historical prevalence of government propaganda typical in a totalitarian society. Although the use of the mass media in promotion, and particularly in introducing new products is a relatively new departure, on which issue other researchers have reported an ambivalent attitude from the consumer. Luo & Chen (1996) have found that 'advertising does not affect performance to any great extent, having an insignificant effect on firm performance, except for a moderate positive effect on sales growth'. The ambivalence referred to may well be an indicator of the level of market maturity, and not an indicator of a cultural trait, given that advertising is highly effective in other Chinese societies. This 'level of maturity' issue may well explain the moderate positive effect on sales, and the greater efficiency in promoting established products, on the basis that if the consumer is ambivalent to the messages of advertising then he will be suspicious of new, and prefer the established products.

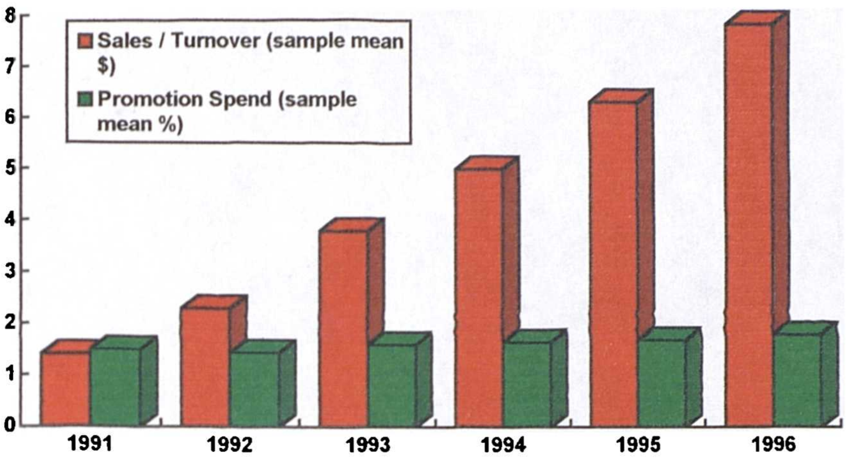
Method

The opportunity to view the efficacy of advertising both in industries where it is prevalent, and in those where it is not in Table H 7(a) enables an evaluation of effectiveness. This analysis shows that where advertising is not prevalent, it is naturally not always correlated with *success*, clearly because it is not appropriate in some industries. Although the incidence of advertising is found to be correlated twice as often with successful JVs than with failing ones, and there is even an equal ratio of *success* and *failure* correlated with advertising when JVs are breaking even.

The same analysis shows that where advertising is prevalent in an industry its use is highly correlated with successful JVs in the sample. However, the analysis in Figure 7.12 hereafter (which relates to Table H 7(b) in Appendix Two) illustrates *the mean sales turnover* of the sample firms with the *mean % of their expenditure* on promotion to indicate whether continuing support by way of advertising is proportional to the growth in sales, and thus to define the contribution made by advertising. It is found that the mean level of expenditure is low as compared to turnover, which suggests that either advertising is inexpensive in China, which is known not to be the case given that there is a media seller's market (*'Rho'* case study), or as appears to be the case that expenditure on advertising in China is comparatively low. It must be assumed, therefore, that such low levels of advertising can only produce a commensurably moderate positive effect on sales.

Figure 7.12

Mean Sales / Turnover of Sample Compared to Mean % of Expenditure on Promotion 1991-96 (Standardised)



Source Derived from the 24 case studies hereto. This data has been standardised such that the 'Y' axis indicates $ millions and also percentage of promotion spend This Figure is intended to show trend and not proportion.

The absence of growth in expenditure in line with growth in sales / turnover suggests that advertising is used largely as an introductory vehicle. Table H 7(c) finds that the motive for advertising is indeed introductory in 60% of the sample cases, which explains the lack of growth in expenditure at times of increasing sales. The high proportion of expenditure in 1991 (Figure 7.12), suggests that introduction was a major motive. However, as products had become established, promotional expenditure had reduced, indicating an unwillingness to promote established products. No cases have been removed from the sample over time, although 46% of the sample are younger than the 1991 start of the table data. The age of those JVs in the sample <6 years reduces in line with the advertising expenditure i.e. >6 year = 13 cases, 6 years = 1 case, 4 years = 5 cases, 3 years = 3 cases, 2 years = 2 cases. Table H 7(d) finds that 58% of the sample JVs have sales growth at a higher rate than market development and economic growth. Of these same 14 cases in the sample, 7 i.e. 50% used only introductory advertising, which indicates that the sales growth achieved within the sample has not been achieved by way of advertising, by at least 50% of the sample cases.

Results

The correlation between advertising and success is at a 100% level in the sample JVs which are in industries in which advertising is prevalent. In industries in which advertising is not prevalent there is a two-thirds correlation between advertising and success. However, the indications are that the level of expenditure in advertising is at a low level when compared to turnover, and remains more or less constant despite growth in sales through the period. Such a low level of expenditure can only produce a moderately positive effect on sales. The implication of the static level of expenditure across the sample over time suggests that advertising is transient and introductory. The fact that the growing sample population, the majority of whom advertise, fails to lift advertising activity reinforces the earlier findings that advertising is introductory in nature. The majority of the sample cases have high growth rates, although 50% of them are found to have used only introductory advertising.

There is no evidence to support the proposition regarding established products, although the proposition is contra-indicated by the concentration of introductory advertising. The low level of expenditure on introductory advertising is unlikely to be responsible for the consistent growth in sales, and at best would only produce a moderate positive effect as proposed. On this basis this hypothesis is supported.

H8 *The Chinese consumer is frugal and seeks value, so price is the dominant marketing mix variable.*

There is considerable contradiction in the literature on the characteristics of the Chinese consumer, as to whether he seeks low cost or brands and quality. It has also been found that the consumer is driven by cultural influences and that he is typically 'value conscious and price sensitive'. The importance of a clear understanding of this relationship cannot be overstated for foreign partners establishing JVs in China, to ensure an appropriate strategic posture.

Price is inevitably a key component of any relative measure of value, interacting with quality, specification, features, and place. It has also been found in the case of JVs in China, that pricing is positively linked with a firm's profit and mediated by product quality and market factors. The products being manufactured and sold in China by JVs, are generally of international quality and involve first-world technologies, such that they are 'exportable' in line with global or regional strategies and government suasion. So with high quality being available to the Chinese consumer, the issue can be focused on price, i.e. whether the products are being offered at prices that the market will bear. Therefore, this hypothesis concentrates on the appropriate pricing strategies employed by JVs, and investigates whether these are modified by competition, economic development, or by experience of market factors.

Method

The level of price sensitivity which is a key component of this analysis is investigated in Table H 8(a) which finds that three-quarters of the sample cases experience high levels of price sensitivity. However, the defining issue must be whether the consumer is careful of necessity i.e. economic circumstances, or is the JVs' pricing strategy incorrectly 'positioning' the product. A cross tabulation of price sensitivity and price positioning in Table H 8(b) reveals when the consumer is most sensitive, i.e. at which level of purchase, and distinguishes between being frugal in purchase in some circumstances and liberal in others.

Typically the lowest level of price sensitivity is at the *bottom-end* of price positioning, and the highest level is at the *top-end*, so we may infer that the consumer is striving for a better deal and is not being careful of necessity. As sensitivity increases to the medium level, the *compliant* price position also becomes sensitive. At high levels of sensitivity all price positions are sensitive, with most at the *top-end* and least at the *bottom-end.*

75% of the sample reports high levels of price sensitivity, with almost half of these being most sensitive towards the top-end priced products. A slightly lesser 39% of the sample reports sensitivity at the compliant level of price, from those who are reported to be highly sensitive to price. There are almost as many cases of low level sensitivity at top-end prices, as there is high level sensitivity at bottom-end prices.

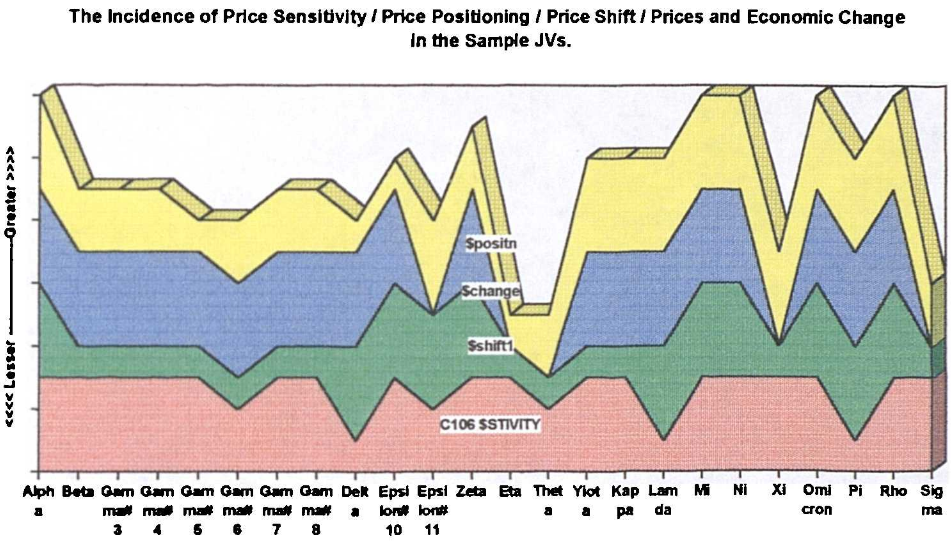
However, to establish whether the Chinese consumer is frugal it is necessary to determine which of the foregoing are frugal postures, and which are not. It would seem just as excessive to shop at top-end prices with a high level of sensitivity, as it would to shop at bottom-end prices with a low level of sensitivity. It cannot be considered frugal to shop for top-end priced products, but it can be considered as frugal to be price sensitive in doing so. The Table H 8(b) in Appendix Two referred to above almost ideally typifies a frugal attitude, except for some minor interference at low level.

The above analysis is entirely based on product price, which is just one component in the value chain. The consumer would balance the issue of price with a variety of valuable features e.g. 'state of the art' technology which almost all the sample JVs offer (C 63), as they also offer a foreign branded product (C 72), or perhaps a product which meets international quality standards as offered by 71% (C80) of the sample, or extended credit which is reported as having a high level of importance by almost half the sample (C 137). The concept of value by way of other criteria than price is no longer new to the Chinese consumer, owing to the increasing variety of goods to choose from, although clearly price remains the main value yardstick.

A detailed price / value analysis is not possible in this case given the specific data required and the variability in the sample. However, it is assumed that seeking value by perhaps comparing quality to price is at one level of sensitivity. Although being proactively frugal is on a higher plane altogether, in which the consumer is sensitive of what he can see of market forces and acts accordingly. A test involving 4 variables has been carried out (Table H 8(c) Appendix Two), to test the above assumption with a view to detecting consumer sensitivity to price and market intricacies, price sensitivity (C 106) as a control, price shift over the JVs life (C 109) to involve price trend, price changes in line with economic change (C 110) to exclude outliers to economic norms, and an insight as to whether the driving force behind prices affects consumer behaviour (C 111).

Figure 7.13 illustrates the relationship between consumer price sensitivity to price position, price shift over the JVs' life, and the influence of economic change on prices. It is clear from both Table H 8(c) and Figure 7.13 that the sample JVs' consumer is highly sensitive to prices, and his high level of sensitivity when *opportunities* exist, indicates that the consumer is *frugal*, that he understands the *components of value*, and that price is the dominant marketing mix variable in these circumstances, owing to his *lack of information* and *inexperience* in making an alternative value appraisal.

Figure 7.13



Source Derived from the 24 case studies hereto. The variable data is ordinal : C106 - Price sensitivity - Low = 1 Medium = 2 High = 3 C108 - Price positioning - Bottom end = 1 Compliant = 2 Top end = 3 / C109 - Price shift over JV life - Increasing = 3 Decreasing = 0 / C110 - Prices have changed in line with economic change - Yes = 3 No = 0. This figure illustrates incidence and is not proportional

Results

The Chinese consumer in this sample is found to be frugal in the sense that he is sensitive to price, and generally speaking the higher the price the more sensitive he becomes, and similarly when opportunities occur in the event of decreases in prices, in which respect he is perhaps not unlike consumers elsewhere. The wide recognition among the sample JVs that features such as credit, quality, and service, are important to the Chinese consumer, evidences the fact that the concept of value is important to him. Therefore, there is a high level of price and market sensitivity in the consumer, who is driven by both opportunity and threat to seek value, and to be frugal. On this basis, this hypothesis cannot be refuted.

H9 *There is a consumer preference for foreign brand quality products over the utilitarian quality of domestic products. The acquisition of foreign brands, quality, and products are major motives of local companies in establishing JVs.*

There is a distinction between the motives for the acquisition of foreign brands, quality, management and products, which are mainly *business specific advantages*, and the motive for the acquisition of technology which can be an *industry general advantage*. Business specific advantages are generally sought by local parties to enable local companies to address their market along the lines of McGuinness et al (1991) who advocate product, promotional effort, and quality as being the main components of a successful domestic strategy. Such advantages are usually contributed by foreign partners to JVs when the foreign partner's motive is market entry, and there is a measure of protection for the foreign partner as long as the JV remains dependent upon his proprietary inputs. Whilst the success of the JV may encourage new entrant competitors, they will variously have similar advantages.

H9a *The acquisition of technology is the main motive of Chinese companies in forming JVs.*

The acquisition of technology, however, is not finite like proprietary licensed attributes, because once technology and know-how have been acquired they cannot be withdrawn, or the use of them restricted. Paradoxically, the majority of technology acquisition in China between 1983 and 1991 was by way of licensing arrangements or purchase and not by way of JVs. The importance of this hypothesis is based upon the fact that the distinction between the characteristics of business advantages and technology is a fine one, and the two are often inseparable. Indeed a product may 'carry' with it a full suite of business knowledge and technology, the acquisition of which erodes the influence of the foreign partner, and can empower a competitor, or be used in other industries.

'Knowledge transfer is often a package including both the tangible embodiment of the technology and the associated tacit management know-how, and the two often cannot be separated' (Teece 1981). The testing of hypothesis H9 seeks to identify the relationship between the formation of JVs and the transfer of brands, and products, and the extent to which these are acquired by the local partner, i.e. according to his level of ownership and management control of the JV.

Similarly H9a seeks to identify the relationship between the formation of JVs and the transfer of technology, the level of assimilation of the technology by the local partner, the 'quality' of the technology transferred, and the risk of loss of exclusivity of proprietary assets.

Method

As a foundation in the testing of this hypothesis an analysis is made of the motive of the local partners in Table H 9(a) which finds that the most frequent motive of local partners is the acquisition of products and technology. This demand for products and technology is based upon the technology shortfall resulting from China's years of isolation, and is identified in variable C88. The analysis in Table H 9(b) investigates the interaction between this variable and the similarity or not of the local partner's main business, which indicates the value of inputs and also the local partner's ability to absorb any acquired knowledge. the final variable in this analysis is the variable C60 which assumes that the technology transferred is the state-of-the-art. This analysis finds that the mode is where the technology of the local partner is inferior, then a significant majority of the sample local partners are in a similar business, and predominantly seek technology, which is found in Table H9(c) to be the state-of-the-art.

Table H 9(d) identifies the frequency with which local partners acquire proprietary knowledge by way of contribution and assimilation, in spite of containment strategies, and H 9(e) identifies what is acquired. The question as to whether local partners acquire the goals irrespective of foreign partner strategies is dealt with in Table H 9(f) which finds that the majority of local partners eventually successfully assimilate a 'developable' or 'independent' level of competence, in a significant majority of cases.

The efficiency of foreign partner retention strategies is investigated in Table H 9(g) which identifies management control as being critical to the implementation of retention strategies. The issue that technology is assimilated over time is found to be so, and Table H 9(h) investigates the stage of development at which this occurs, and finds that local partners acquire technology progressively throughout the JVs development with a peak of developable and independent competence being coincident with mature JVs.

Results

It is established that the sample local partners form JVs with the intention of improving their companies by acquiring advantages in areas in which they are inferior, e.g. brands, products, and quality. this acquisition strategy is found to be successful, although not all foreign partners readily transfer such advantages, in which cases local partners acquire proprietary knowledge by assimilation over time. So brand protection is a priority issue for foreign partners who attempt to diminish the local partners' assimilation, and this is found to be moderately effective. The retention of essential inputs is found to be more effective provided the foreign partner has management control.

Technology is found to be sought more than brands and products. It is found that whilst assimilation is slow to get started in the establishment phase, it increases in the growth and mature phases, in which a majority of local partners achieve a 'developable' level of technological, brand, and production familiarity, and an equal number achieve an 'independent' level of competence. Therefore, given the clear indications of local partner motives and strategies, it is not possible to refute either of the hypotheses H9 or H9a.

H10 *The dissemination of proprietary know-how leads to conflict.*

The transfer of contributions and the organisational learning process inevitably changes both partners, and especially at the level of their dependence upon one another. Research cited in the formation of this hypothesis (Chapter Five) proposes that the potential for conflict increases with the dissemination of an independent level of a wide variety of proprietary knowledge. This hypothesis is based upon the fact that such changes in the balance of power can lead to opportunistic behaviour. This often comes from the local partner, given that he can afford to entertain ambitions of independence, in that once he has acquired the necessary knowledge he could operate independently of the foreign partner. Whereas the foreign partner would always need a local partner so long as his engagement was by way of a JV. 'Such equivalence or sufficiency on the part of one partner provides the freedom for conflict, and this requires only an opportunity, such as volatility perhaps caused by disagreement, or at a time of downturn in the JVs' fortunes for conflict to occur' (Madhok 1995).

It must be improbable that conflict in the area of technology is more likely to be terminal than conflict in other areas. Technology transfer is only one of the possible conflict areas which could endow the local partner with the possibility of independence. It cannot be that JVs are terminated when local partners have acquired an independent competence, and even if it were so then given the various ages and stages of development of the sample cases, there would always be those close to such an achievement.

This hypothesis proposes a relationship between the assimilation of an independent technical capability within the local partner, the testing of which will seek to identify the coincidence of conflict in the JV, the stage of development at which both situations occur, and the level of technical co-operation, and technology transfer, which has led up to the period of conflict.

Method

Whilst the sample data suggests that conflict in the area of technology transfer is at a very low level of 5.3% of cases (C 169) it is proposed, by research cited in the formation of this hypothesis, that potential for conflict increases with the dissemination of an independent level of a wide variety of proprietary knowledge. The JVs most likely to suffer from conflict are those which allow an independent competence in the local partner. It is assumed that the foreign partner is best suited by the status quo, which provides him with a continuity of his motive (58% market entry, C 7), from which position he is unlikely to seek independence. Whereas, the local partner seeks the accomplishment of his motive (73% the acquisition of proprietary knowledge, C 8), which does enable independence. However, the analysis of H9 and H9a (Table H 9(h)) find that only 20% of cases in the sample are said to have such a high level of technological assimilation in the mature phase. These cases are identified as having been cases #1 and #2 in the Data Matrix (Appendix One). Coincidentally these two cases are also listed in variable C167 data as experiencing high levels of conflict, as does #9 which is the only other case found to have achieved an independent level of competence, except that #9 has done so at the *growth* stage (analysis of C9 and C68 is presented in the testing of H9a). So whilst the one-fifth of the sample which achieved an overall level of competence is not a significant proportion of the population, the number of those cases (i.e. #1, #2, and #9) which experienced high levels of conflict was significant.

The analysis of Table H 10(a) seeks to establish when JVs are dependent upon the local partner for operational inputs, and finds that typically JVs are more dependent (50% of cases) at the establishment stage, although 80% of the sample cases are not dependent upon the local partners for operational inputs, and least dependence occurs in the more developed stages. Given that the above investigation has established that dependence upon the local partner occurs in only one-fifth of the cases, it is possible to view the analysis of Table H 10(b) from the foreign partners' perspective. The analysis seeks to identify the frequency with which conflict occurs in various areas, and the stage of development of the JVs when such conflict occurs. It is found that conflict occurs in areas and at times when they most frequently interact. For example, finance and strategy are important in the establishment stage and that is when most conflict occurs in these areas, and decreases as JVs stabilise. Whereas, management and tactics are equally important in all stages and whatever conflict occurs in these areas does not change with the stage of development of the JV. Technology transfer, however, is not an area of conflict in establishment stage JVs, although it becomes so in later stages when either transfer can be seen to have not taken place, or when the local partner seeks to assimilate, and the foreign partner seeks to retain. Table H 9(h) in the testing of hypothesis H9 and H9(a) confirms the gradual assimilation of technology by the local partner throughout the stages of development, with the most technology having been assimilated in the mature stage.

Results

Establishment phase JVs are found to be dependent on the local partners' inputs. JVs gradually learn of their environment and frequently become independent of their local partner in the *growth* phase. A measure of dependence on the local partner for proprietary knowledge continues into the *mature* phase, although at a much lower rate, 1 : 4 compared to the *establishment* phase level of 1 : 1.

Conflict in the area of technology transfer appears to be very low in the sample. But this does not seem to be related to the reported frequency or terminal nature of conflict in this area, which is reported as being correlated to an assimilated proprietary competence mainly by the local partner.

It is clear that the dissemination of proprietary knowledge destabilises the shared arrangement under which the JV was originally formed, by removing much of the interdependence of the partners. There is no evidence that the process of dissemination results in conflict, but there is significant evidence that the achievement of independence in proprietary know-how results in conflict. Therefore, it is not possible to refute this hypothesis.

H11 *The transfer of technology provides the opportunity for the emergence of new wholly domestic competitors.*

The virtual inevitability of the assimilation of a 'developable' or 'independent' level of technical competence in a large proportion of the local partners illustrates the importance of this hypothesis, on the basis that such acquired competence can be used competitively. This hypothesis concentrates on the advantages and opportunities acquired by the local market, through the transfer or 'loss' of technology to partners who might seek independence, and others who might become competitors. The transfer of any related technology is more likely to enable the creation of a competitor, than is the absence of technology transfer. The *Delta* case study hereto evidences the effectiveness of local partner gradual encroachment in the assimilation of technologies. The important issue being that *planned transfer can disseminate* just as much as is required for operational reasons, and retain (contain) critical knowledge beyond that level. The extent of *unplanned or assimilated knowledge* by way of involvement and 'leakage' is an unknown risk, and more likely to empower local competitors. However, as has been discussed in the formation of this hypothesis, it is unlikely that knowledge can be separated and assimilated in one area alone, just as it is unlikely that such knowledge would be sufficient for the creation of a new competitor. An 'independent' level of knowledge is likely to have been acquired by a combination of *planned dissemination* and *unplanned assimilation*, the testing of this part of the hypothesis investigates the extent and means of this proposition.

H11a *Continuing JVs are ones which remain dependent on the foreign partner for proprietary know-how and technology inputs.*

Continuing JVs are ones which maintain a dependence upon the foreign partner, as opposed to an independence in the abilities of the local partner. The gradual loss of influence over the internal operations of JVs to local partners, who simultaneously seek to assimilate the foreign partners' technology and know-how (Rondinelli 1993), substantially weakens the position of the foreign partner within the JV. Madhok (1995) observes that conflict between the partners occurs when their value to one another is reduced (especially the value of the foreign partner to the JV), and that such loss of dependence centres on technology assimilation, acquired distribution channels, and learnt management. In defence of their position within the JVs, many foreign partners prefer to retain proprietary inputs and develop their own internal contributions, e.g. by establishing their own sales teams and distribution channels (Bjorkman 1996). The testing of this hypothesis investigates the extent of JV dependence on the foreign partner, by analysing the extent of critical inputs and the level of localisation.

H11b *The retention of brands, components and formulated inputs ensures income and leverage for the foreign partner.*

Hypothesis H 11(a) has proposed that the relative balance of dependence between the partners ensures the continuity of a JV. This part of the hypothesis goes one step beyond mere continuity and addresses the balance of power, and the incidence of retention or loss, which can be used to produce income and leverage for the foreign partner. Whilst the protection of intellectual property legislation in China is still not ideal, it is possible to contain brand usage within a JV according to the terms of the establishment contract (Lewis 1995). Although an uncertainty exists in Chinese law as to whether a brand is a jointly-owned divisible asset upon termination of a JV, even if it has been the sole property and invention of the foreign partner who permitted the JV to use it during his involvement. So it is assumed that strategic protection based upon essential inputs is often better than legal protection. Such strategic protection is usually in the form of essential *enabling* inputs to which foreign partners retain access.

The testing of this hypothesis investigates the extent to which foreign partners retain essential inputs, the level of JV dependence upon them, and the level of conflict within the JV, both in general to signify the level of volatility, and also as directly related to technology transfer / assimilation issues, to signify the need of the partner to acquire an independent level of competence.

Method

An analysis of the incidence of proprietary knowledge having been transferred en-bloc (C 59), and the level of assimilation of technology of the local partner (C 68) as in Table H 11(a), indicates that where proprietary knowledge is transferred en-bloc as in 75% of cases, it is done at a level whereby over 70% is 'developable' or 'independent' level,. Where proprietary knowledge is not transferred en-bloc the mode is still at the 'developable' level. Although when over 70% of those receiving en-bloc had assimilated technology at the 'developable' and 'independent' levels, a similar number of almost 70% of those not receiving transfer en-bloc had assimilated at the 'low' and 'developable' levels. So whilst 75% of the sample cases had received transfer en-bloc and 25% had not, a higher degree and incidence of 'developable' and 'independent' competence was achieved, indicating 2 important characteristics of this issue : (1) that the sample JVs have deliberately transferred a notable amount of proprietary knowledge, and (2) that assimilation by involvement is an efficient way of acquiring proprietary knowledge.

As proprietary knowledge inevitably becomes assimilated by the local partner, it is necessary to address the specific point in this hypothesis as to whether the opportunity for the emergence of competitors was provided or assimilated, and if it was assimilated, was it placed at such risk by *planned transfer* to the JV, or was it assimilated despite being protected. An interaction between the variable related to technology assimilation (C 68) in two analyses, provides an insight into the 'internalised' and 'externalised' risks involved in the transfer or containment of proprietary knowledge to the sample JVs.

(1)

In the first analysis, the level of assimilation by the local partner is investigated (C68), when technology is contained within expatriates (C67), and where it is also embodied in production equipment (C 69). The important distinction of the analysis in Table H 11(b) is that the proprietary knowledge which could empower a competitor exists locally. However, the indications are that the assimilation of knowledge is highly correlated to access. For example, where technology is not embodied in production equipment on site, and where knowledge is contained within expatriate staff, then there is little access and therefore assimilation is relatively low at 33% of all cases. When technology is not embodied in production equipment, and technology is not exclusively contained within expatriate staff, therefore it is more accessible, then there is a higher level assimilation.

(2)

This analysis investigates the assimilation of the local partner (C 68), when production is design and formulae dependent on the foreign partner (C 70), and when formulated raw materials / components are supplied by the foreign partner (C 71). The important distinction made in the analysis in Table H 11(c) being that the proprietary knowledge which could empower a competitor, does not exist locally. The evidence of this analysis is that there is such a high level of correlation between the variables, that the analysis based upon the control variable '*no materials are supplied by the foreign partner*', produces an almost opposite response to when materials are supplied. It is clear that when no materials are supplied by the foreign partner, only about half of the sample (54%) is dependent on the foreign partner, and the mode of assimilation is at the 'independent' level. Conversely, when materials are supplied by the foreign partner, the majority of the sample (82%) is dependent on the foreign partner, and the mode of assimilation is at the 'low' and 'developable' level. This suggests that the provision of essential materials satisfies the local partner and restricts his independent ambitions.

The overall indication of this analysis suggests, given the equal division between the sample cases falling into the categories of materials supplied / not supplied, that the incidence of the assimilation of knowledge concentrates in areas where access is available, i.e. when knowledge is accessible. It follows, therefore, that the greatest opportunities to the emergence of competitors occur when access is available to knowledge of essential inputs.

The subordinate part H11a of the main hypothesis has largely been tested 'by association' during the investigation into H11. From which it follows that if proprietary knowledge, and especially technology, is retained (contained) within the original interdependence of the partners, then the JV would continue. It is reported by other researchers in the formation of this hypothesis, that JVs which lack any interdependence owing to dissemination / assimilation of knowledge, suffer from conflict and frequently fail. Whereas, a maintained level of mutual dependence leads to longevity in JVs, although it has been found by analysis of the stage of development (C9) and the level of assimilation (C68), that the level of assimilation increases in line with development. The rate of assimilation of knowledge is not necessarily a function of time, analysis of the age of JVs (C4) and the rate of assimilation (C68), reveals an even distribution indicative of the variability in the sample.

The testing of the subordinate proposition H11b, derives support from the testing of the main hypothesis H11 where it has been found in the interaction between variables C 71, C 68 and C 70, that there is a relatively low level of dependence when there is no exclusive material or component input by the foreign partner. In which case he has fewer opportunities for income and little basis from which to exert leverage on his partner. However, when materials and components are supplied by the foreign partner, the JV becomes dependent on the foreign partner's inputs, which affords him with opportunities for income and leverage (see (2) above).

Results

The distinction between planned dissemination and unplanned assimilation is clear, but it is also clear that both can provide opportunities for the emergence of local competitors. Generally, it is found that planned knowledge transfer would tend not to empower the local partner to a level of independence. Although it is found that those not receiving planned technology transfer are managing to assimilate an unplanned level of know-how, equal in frequency and mode, and almost equal in extent. It is found that the sample JVs transfer a significant amount of proprietary knowledge, which can be complemented with a large amount of assimilated data to elevate the recipient to a higher level than planned as an acceptable risk by the foreign partner. Thus there is a considerable body of evidence in support of Hypothesis H11.

The assimilation of proprietary knowledge by a local partner is significantly increased when it is accessible, and not contained within expatriate staff exclusively. It is also found that the *distant* retention of inputs by way of the supply of materials and components, does not appear to limit the assimilation of proprietary knowledge.

On balance, therefore, H11a is supported in that clearly the containment of proprietary knowledge maintains interdependence and promotes longevity. There is no doubt that the loss of proprietary knowledge also reduces income and leverage for the foreign partner. Therefore, there is support for Hypothesis H11b in that there are benefits in retaining rights to exclusive knowledge of materials and components, and continuing with formulated inputs.

The evidence of this analysis of sample data supports the Hypothesis H 11, and the subordinate propositions H 11a and H 11b.

H12 *An entry motive to access the market size usually fails, although the market which is accessed usually produces JV performance at a high level of establishment expectations.*

The formation section of this hypothesis proposes that the dollar-per-person market size proposition is unachievable, and that any investment which is dependent upon such a level of access, will usually fail. It is proposed that any measure of achievement should be based upon whether the size of the JV has been appropriate to the size of market it has accessed, that its achievements are fulfilling expectations, and that it has accessed the market to an extent beyond which the market would be better served from another location, for distance, physical, and political reasons.

H12a *Market access and performance are frustrated by physical and infrastructural limitations.*

This part of the hypothesis suggests that there may be limitations inherent to the market, other than internal or strategic considerations as discussed above and in the formation of this hypothesis, which cause some JVs to limit or expand their activities. Ultimately such limitations are expressed as costs, which owing to the low level of infrastructural development, can be a limitation to market access. This part of the main proposition investigates the effect of such costs on the ability of the sample JVs to access the market.

H12b *The main impediment to whole market access is politico-economic strategy (i.e. provincial protectionism and regional strategic development.)*

The possible limitations to gaining access to the market size, as proposed in the main part of this hypothesis, may be based upon a national government strategy, or as a result of a measure of the economic development autonomy devolved to the provinces. The result is an economic protectionism exercised by the provinces to protect local industries, and to attract new industries into their region. This part of the main proposition suggests that politico-economic forces imposed by national and local authorities can impede market access.

Method

The analysis in Appendix 2 Table H 12(a) details the interaction between the geographic extent of the market accessed (C140), performance on the basis of establishment expectations and results (C20), and the viability of the JV (C10), identifies whether the established size of the JV is appropriate to the accessible marketplace, and whether achievements are adequate and in line with original expectations. The least common extent of access is as the 3 cases (12.5%) of the sample which are HQ province orientated JVs. The mode is the 'widespread' extent of access which involves 12 cases (50%) in the sample.

All the sample JVs having a 'low' level of performance, manufacture OEM products, i.e. components of products or projects, all are high technology, high quality, and relatively high priced, which attributes take time to *'sell'*, the further a business expands into a developing hinterland. So *time taken to develop the market* is analysed along the lines of the mode i.e. nearby province market access. The mean age of JVs having a 'low' level of performance i.e. *Beta* 7 years, Eta 10 years, *Yiota* 6 years, *Xi* 4 years, *Omicron* 3 years and *Sigma* 10 years, is 6.7 years. The mean age of those JVs having a better 'medium' level of performance i.e. *Alpha* 10 years, and *Gamma #4* 6 years, *Gamma #6* 3 years, *Gamma* #7 3 years, *Gamma* #8 1 year, *Gamma* #9 3 years, *Theta* 10 years, *Mi* 11 years, *Rho* 7 years, is at 6 years. The mean age of JVs which have done better is found to be higher i.e. *Gamma #3* 8 years, *Gamma#5* 4 years, *Epsilon#10* 8 years, *Epsilon#11* 8 years, *Zeta* 3 years, *Kappa* 4 years, *Lamda* 7 years, *Ni* 10 years, *Pi* 14 years, at 7.3 years. This suggests that the time taken to access the market regionally sequentially is similar in period, and is evidenced by the similar trend which continues as JVs venture into 'widespread' market access, with the mean age of 'high' performers being 7.25 years.

An analysis of achieved market access (C140) and the associated cost of accessing distant regions (C144) as in Table H 12(b), reveals that the cost of accessing distant regions is a limitation to market access for 52% of the sample JVs. JVs which have expanded into nearby provinces find that costs are a limitation to market access in almost two-thirds of cases, and this is investigated from two perspectives, firstly from the viewpoint of what effect current costs are having on their performance, and secondly from the viewpoint of the extent to which performance would be impacted by further market access. Two-thirds of JVs which have widespread market access do not find that costs in accessing distant regions are a limitation to market access.

Further analysis reveals that the effect is actually a combination of a scale economies and the efficiencies achieved by regional operations. All 8 of these JVs, i.e. *Gamma#3, Gamma#4 Gamma#8. Yiota, Mi, Ni, Rho, and Sigma,* are above average performers viz. : a mean 32.4% HQ province market share as compared to a sample mean of 27.6%. Similarly, they have a mean national market share of 20.6%

as compared to a sample mean of 12.4%. So these JVs are above averagely successful, and are structured to benefit and finance access from economic scale effects given that 87.5% of these JVs aggregate the cost of accessing distant regions into their national price structure (C145), and an equal proportion also co-ordinate their sales tactics on a national basis (C129).

Many impediments to broad market access are politico-economic, often founded upon provincial protectionism by the authorities. As a result some JVs are dependent upon distribution channels inherited from their local partners (16.7% C143), or developed by the JVs as in the majority (62.5%) of sample cases. The issue of whether provincial protectionism limits market access is found to have 37.5% of the sample agreeing with the suggestion and 62.5% disagreeing. An analysis of the disposition of the subjects holding these opinions is arrived at by the cross tabulation of the extent of market accessed (C140), and the experienced limitation to market access resulting from provincial protectionism (C148) is presented in Table H 12(c). The findings of which confirm what is widely reported in other research, and features in the case studies hereto, in that provincial protectionism exists in China. The balance between there being and not being limitations to market access is more pronounced the further away from the HQ province, although provincial protectionism is found to limit market access in less than 40°o of cases. If there were a tendency for provincial authorities protecting businesses within their area, then there should appear a clear trend of provincial government patronage towards the local competitor, an analysis of C149 shows no clear pattern with patronage levels towards outside suppliers being variously *low* in 50°o, *medium* in 33.3%, and *high* in 16.7% of cases. However, where there is a clear case for the authorities to support, i.e. where a local competitor does exist, then provincial patronage towards outside suppliers, as a result of protectionism, is *low* in 79%, *medium* in 21%, and *high* in 0% of cases, thus indicating a clear preference for the local supplier.

Results

Any physical and infrastructural limitations which affect the sample JVs in access and performance, could be so various in type, effect, and case specificity, such that the assumption is made herein that such influences would be detectable in cost or failure. On which basis it is found that costs i.e. impediments do not limit market access, more specifically it is found that none of the above 8 JVs, as with almost two-thirds of the sample, found communications and transportation to be an ultimate limitation to market access. The overall suggestion being that the greatest hindrance to market access is the work required to develop the market, which takes time and thereby causes delay, which in turn requires financing and takes income away from accessed market areas. Physical and infrastructural factors may be limitations given the huge distances involved and the outdated business environment, but these factors are not identified in the sample cases as major impediments.

There are dimensions to market access other than geographic parameters, e.g. within industries, as compared to other JVs. The measure used herein is governed by geographic extent based upon the assumption that the regional distribution / self sufficiency system which established many local industries during the command economy days, had the effect of creating many 'local' markets. Thus when researching market access it is assumed that achievement in terms of performance in the regions defined in the analysis, is bound to also account for intra-industry, cultural, and special zone variations.

The findings confirm that JVs frequently achieve the market access they seek, and that performance, in terms of establishment expectations, is most often high at all levels of access. It appears to take longer to profitably access the greater China market, than the more accessible and smaller home province. However, there are indications that the extent of access sought should be addressed early in the life of the JV, as there appears to be little difference in time taken to acquire 'widespread' as compared to 'HQ province' market access. A geographically progressive strategy could take almost 3 times as long on the basis of this study, and this would exceed the approval life of some of the sample JVs. These findings support the hypothesis H12.

It is not possible to support the hypothesis H12a, which proposes that there are physical and infrastructural limitations to market access. The indications from the sample data are that the time taken, and the investment and opportunity costs involved in market development are the main limitations to market access. Nevertheless, the large distances and underdeveloped infrastructure must hinder market access to some unknown extent, but whatever that measure is, it is not sufficiently significant, e.g. 64% of the sample cases do not find that communications and transportation infrastructures limit market access (C146). On the basis of this analysis, it is necessary to refute hypothesis H12a.

There is clear evidence derived from the sample data herein to support the claim in hypothesis H12b, that provincial protectionism exists in China. This situation can be a major impediment to market access where a local competitor exists. However, given that not all JVs have local competitors in all provinces, then it cannot be *the main* impediment as proposed in this hypothesis. But it can, as outlined above, be *a major* impediment, on which basis the findings herein support hypothesis H12b.

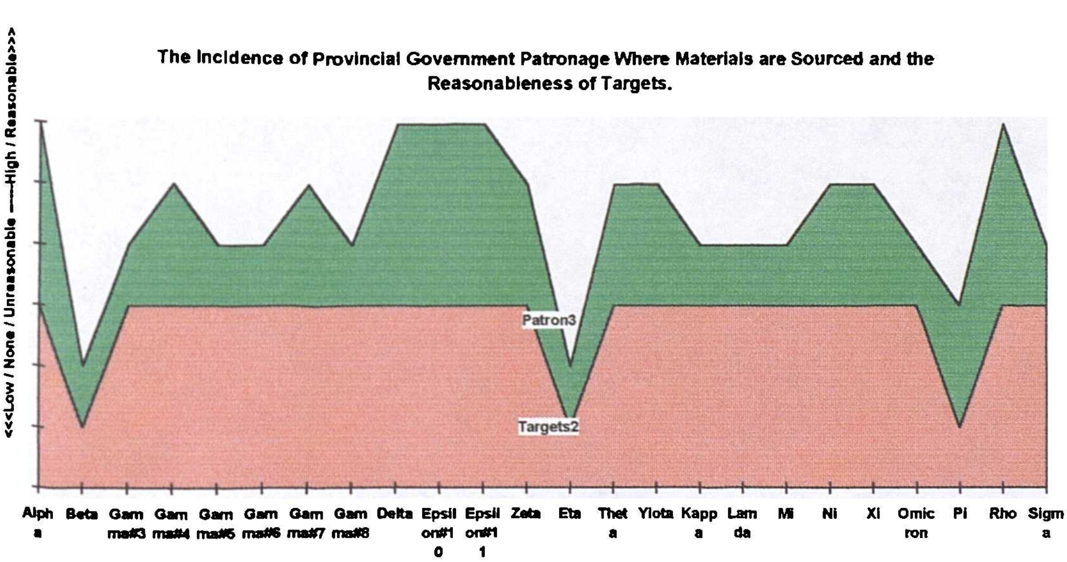
H13 *JVs formed at the provincial level in partnership with local entities attract less attention from the authorities.*

JVs with an equity value above US$ 5 million have to be formed in association with, having the approval of, or controlled by Central Government bodies. Such a close relationship with policy making authorities requires rigid conformity with the regulations, and strict enforcement by the authorities of the controlling mechanisms in the JV regulatory system, e.g. targets, exports, foreign exchange, and pollution control. 50% of the sample JVs have equity values below this level (C1) and 50% of the sample JVs are formed with provincial government bodies, special authorities, TVE and SEZ authorities (C35) (Table H 13(a)), and other suitably empowered bodies, which have responsibilities at the local level. These bodies inevitably become involved in the local provinces' wider aims in promoting local economic interests, and to attract new industries. The local authorities cannot give inducements beyond the terms of the national law on JVs, but they can give preference in areas within their control. This amounts to the protectionism discussed in the previous hypothesis H12. So it is proposed that by forming JVs at the provincial level, foreign partners can avoid stringent adherence to some regulations, benefit from local protectionism and more reasonable targets, and also avoid being the subject of government experimentation.

Method

If the proposition reflects the actual circumstances then the protectionism which was observed in the previous hypothesis H12 as favouring local supply over an import, must now be viewed as an advantage by at least 21% of the sample JVs which are locally intensive (C151), and also by the provincial authorities as a substitute for imports.

Figure 7.14



Source · Derived from the 24 case studies hereto. The variable data is ordinal : C18 - JV approval targets Unreasonable = 1 Reasonable = 3 None = 0 / C151 - Provincial government patronage where materials and components are sourced - Low = 1 Medium = 2 High = 3 This figure illustrates incidence and is not proportional.

An analysis of the interaction between the local partner type (C35), and the stringency of JV approval targets (C18), whilst using the control / approval authority variable (C45) as a *control*, as in Appendix 2 Table H 13(c), tests the incidence of *reasonable* and *unreasonable* targets as applied by the various controlling authorities upon their affiliates, as compared to those placed upon others. A further analysis of the incidence of targets (C18) as placed upon JVs according to the type of the local partner (H 13(d)) seeks to clarify the incidence and nature of targets and finds that 85% of targets are reasonable, with over 50% of them occurring when JVs are established with partners other than SOEs. It follows that where JVs are formed with provincial partners, or where materials or components are sourced locally, then the provincial authorities may prefer the JV over outside suppliers. An analysis of the incidence of local government patronage (C151) is made with the reasonableness of targets (C18) (H 13(e)) to investigate whether there is a significant level of patronage in terms of the reasonableness of targets. Figure 7.14 illustrates the incidence of materials sourcing and provincial government patronage of the sample JV companies.

Results

It is found that when the supervisory and controlling authority is central government, the targets are reasonable in 50% of cases, whether JVs are formed with SOEs or with provincial government companies. However, when the authorities are local government agencies then the targets are reasonable in over 93% of cases, again irrespective of whether JVs are formed with SOEs or provincial government companies. Whilst only 50% of the sample JVs are formed with local government companies (H 13(d), it is found that 62.5% of the sample are supervised and controlled by local government agencies. When the reasonableness of targets is interacted with local government patronage where materials and components are sourced, it is found that targets are reasonable in 87.5% of cases, which indicates that local / provincial authorities impose more reasonable targets, most often with a protectionist motive. Therefore, this hypothesis is supported.

H14 *"Whatever money is being made by JVs in China is not being made in anywhere near the quantity, or with anywhere near the ease which had been expected".*

The importance of this hypothesis is founded upon the frequent findings of other researchers, who have observed that new entrants in JVs in China have an unreasonable expectation of market size, and that a variety of environmental circumstances limit the performance of JVs. If it is indeed the case that income from participation in the China market is not achievable in the *quantity* or with the *'ease'* which had been expected, then perhaps the expectations of foreign partners have been based upon an unreasonable premise of accessing the whole market, or that they have miscalculated demand, competitiveness, or the problems related with accessing the extent of the market upon which the original premise was made. The implications being that if the hypothesis is found to be supported, then either the sample JVs have taken inappropriate strategic postures, or there are inherent limitations to optimal achievement in the China market by way of JVs.

Method

The testing of this hypothesis initially investigates whether the sample JVs contribute and receive appropriate inputs, that the partners are suitable, that the JVs' technologies, products, brands, quality, level of adaptation are appropriate for the market, and the extent to which mutual dependence, and authority controls limit the JVs. These issues are analysed on the basis of the sample JV data in Tables H 14(a) to (l), and find that the sample cases comply with the market characteristics to a significant degree. Whilst the advantages of JVs in China are more *frequent* than the disadvantages, the balance between them must contribute to the analysis of the *'ease'* referred to in this hypothesis, which appears in H 14(n).

All of the sample JVs have had a measure of investment other than capital e.g. equipment, know-how, technology, licensing, and brands. Whilst it is difficult to place a value on any resulting improvement, it is *any* effect which is central to the testing of this hypothesis, as in Table H 14(o). This table interacts the variables related to the level of the technology transferred (C60), and the incidence of the level of technology possessed by the local partner (C88), to ascertain whether a synergistic effect based upon contribution has produced a synergistic effect, appropriate to the local market. However, evidence of a synergy between the partner contributions does not automatically result in JV performance. Table H 14(p) performs the same analysis as Table H 14(o) with the addition of the controlling variable related to JV performance (C20). This analysis shows that over three-quarters of the sample JVs received state-of-the-art technology, and 86% of the sample cases produced 'medium' or 'high' levels of performance.

An investigation into the 'quantity' of money being made in the sample JVs, reveals a pattern of growth which is limited in this analysis to those with a continuous history throughout the 5 year period, and having *a percentage of profit growth* rate year-on-year of :-

1992 : 42%, 1993 : 41%, 1994 : 28%, 1995 : 4%, 1996 : 16%.

The peak growth rates and surge in 1992 and 1993 are not found to be typical of JVs either in China or of a particular age, or level of maturity. These values can be explained within the sample as resulting from *Epsilon* becoming fully operational including with its expansions, *Gamma #3* and *#4* commencing supply to their dedicated clients' new facilities, and also growth in *Lamda*.

An important economic indicator which needs to be considered in this research, to clarify the growth rates given above, is the level of inflation in the period of study. This is variously quoted at between 11% and 14% in the period 1991 to 1993, reducing slightly in the quoted range to between 9% and 13% in 1996. However, these statistics are mostly of price inflation in major cities and developed areas. Whereas, it is known that prices are lower in the less affluent regions which further suggests that the statistics are unreliable.

An analysis of JV profit and loss 1991 - 1996 (C11 to C16), and sales turnover 1991 - 1996 (C113 to C118), finds the mean rate of profitability of those established prior to the period of the study has steadily increased, although even at its lowest level within the study period (i.e. 11.2% in 1991), it compares favourably with the profitability of the same foreign partners' performances in other locations, (Annual Reports of *Theta* 1992, 93, 94, 95 and 96, *Beta* 1994, and *Epsilon* 1993 and 94).

Results

The evidence is that the stance taken by the sample JVs is compliant and appropriate to the market to a significant degree. In addition the majority of the sample cases are autonomous and not dependent on the local partner to a significant and limiting extent, and neither are they constrained by price, volume, or distribution controls in over 70% of cases. These attributes result in 'medium' and 'high' levels of efficiency in almost 80% of cases, which are correlated with almost 80% of ROI efficiency as compared to performance in other locations.

The competitive synergy created by the JVs is found to be significant in that whereas two-thirds of all the sample cases' local partners had inferior technologies which were improved by state-of-the-art technology contributions from the foreign partners, indicating that the JVs' products are competitively appropriate to the market. This latter point is confirmed by a performance analysis which shows that such modernising contributions coincide with high levels of performance.

Whilst market forces can be seen to have contained price increases, 80% of the JVs' prices have changed in line with economic change, and 70% of the sample cases have been competition driven. The growth rate of profitability year-on-year through the study period is found to be erratic and decreasing, and probably results from increasing market access into less developed regions, and also increasing competition. Nevertheless, profitability at the lowest level through the study period of a mean 11.2% compares favourably with the sample foreign partners' performance in other locations.

The balance in these analyses are in favour of the sample JVs inasmuch as the beneficial effects tend to dominate. The modernising and improvement effect of foreign partner contributions is at such a high level, that the results could not have been achieved with *'ease'*. Efficiency and money-making are highly correlated which further suggests that there is no 'easy' money made in the sample. In these respects the evidence supports the hypothesis.

However, with regard to the 'quantity' of money being made by the sample JVs, the findings refute the suggestion that a less than expected amount of money is being made. Whereas, in fact the profits are comparable with other locations, as is the ROI, which very often exceeds that in other JV locations. The weight of argument in this hypothesis would tend to be with the most common measure of money, i.e. the 'quantity', rather than a measure of the 'ease' with which it is made, which must be tenuous at best. In which case the evidence in the analysis refutes this hypothesis.

H15 *China's cultural traditions suggest that relationships between customers and suppliers may be more important than they are in western markets. The prevalence of 'Guanxi' suggests that sales force marketing has a positive impact on profitability.*

It is widely reported that Guanxi and Chinese cultural traditions are more important in business relations in China than in western societies, and that buyer behaviour is based upon Confucian principles of thrift and asceticism. Whereas the Chinese concept of 'face' and the hierarchical ranking of everything in Chinese culture influences consumers to seek quality and brands, as well as value. This hypothesis proposes that getting close to the consumer by sales force marketing including a regional presence perhaps also with stocks and service centres, enables the maximising of Guanxi and has a positive impact on profitability.

Method

Ultimately the testing of this hypothesis must be based upon the incidence of Guanxi and culturally cognisant strategies within the sample JVs, and their achieved performance. This analysis is in two stages, the first of which is investigative in determining the appropriateness of the posture taken by the sample JVs in areas relevant to this proposition. The second stage is definitive in identifying the relationship of culturally based strategic factors and JV performance.

Tables H 15(a) to (d) investigate the posture taken by the sample JVs in terms of product adaptation, local stocks, regional location of staff, and the provision of regional service centres. All of which are indicators of the compliance of JVs to market characteristics and cultural influences. Table H 15(e), however, tests the effect that a product's price position which may be set to reflect quality and brand, has upon the consumer's sensitivity to price. The interaction of these variables reveals the level of price sensitivity as related to 'bottom-end' products progressively through the range of prices and quality to the 'top-end' products, and reveals that 75%, i.e. the mode of price sensitivity is at a high level increasing progressively from the 'bottom-end' to the 'top-end'.

Tables H 15(f) to (k) provide further evidence of compliance by the sample JVs to local preferences in QC and standards which are maintained at international levels, and that products are most often promoted on the basis of their quality. This stance is taken on the basis that there was a demand which was being met with inferior products, by local suppliers who had a mean market share of 14.5% in their industries, whereas consumers are said to seek quality, brands, and value. This position is known to the sample JVs, because the majority of their local partners originate in a similar business. The importance of continuity in terms of customer contacts, connections, and Guanxi is further addressed by the JVs by the transfer of almost half of their staff from their local partners, and with the regional location of staff in three-quarters of cases.

Table H 15(o) and (p) indicate the effectiveness of proximity with the consumer by the 46% of cases in which the local partners' regional operations contribute a mean 8.75% of the sample JVs' sales, which coincides with the frequency of the effective contribution of influence (H 15(q)). Such influence is based upon the practice of Guanxi, and the high level of incidence and effectiveness is significantly correlated with the 30% frequency with which local partners' are allowed to participate in the management of sales and marketing (H 15(s)).

The correlation between the establishment of regional sales offices, i.e. the recognition of the importance of having a local presence, and the level of JV performance is shown in Table H 15(r), which finds that HQs operations operate at 'low' levels more often, and that regional offices operate at 'medium' and 'high' levels most often. The indication of which goes to the root of this proposition in that performance is correlated with the proximity offered by regional operations, which has been said to be a pre-requisite of developing and operating Guanxi. This strategy, if expanded to cover the market, necessarily involves sales force marketing.

Results

It is clear that the strategy of the sample JVs is significantly compliant to environmental circumstances, but it is also cognisant of cultural influences. Example of such postures are given in Tables H 15(a) to (d) and H 15(f) to (q), in which it is shown that the sample cases have engaged in product adaptation, stockholding, staff location, and service centres, many of which local market characteristics have been motivated by cultural influences. Thus we may deduce that the sample JVs recognise the importance of compliance to such characteristics. The number and difference of which from western markets, indicates that JVs willing to go to such extremes must recognise that such characteristics are as important or more important than in western markets, as proposed in this hypothesis.

It is said that the Chinese consumer seeks quality, brands, and value, and this analysis finds this statement to be positively indicated. Price sensitivity is found to be generally 'high' overall, and incrementally with price positioning, which also carries the consumer's other preferences of quality and brands. This indicates that the sample JVs' posture is reflected in the market's response in terms of its reported characteristics. It is also found that performance and sales strategy are highly correlated in line with cultural characteristics of relationships based upon proximity to the consumer, i.e. regional sales force marketing. Thus the propositions in this hypothesis are supported.

H16 *R & D intensity varies by industry / partner / operation length, and has a minimal positive effect on JV performance, and a negative effect on accounting performance.*

It is inevitable that R & D intensity varies as suggested, although the link between R & D frequency, the relationship of the partners, and JV performance, is to be found in the partners' motives which dictate where R & D is carried out, how much of the process is shared, and what are the aims of the work. Two different attitudes prevail in R & D, as they do in technology transfer (see the testing of hypotheses H9a, H10, H11 and H11a), and which tend to divide the JV participants into those who willingly transfer technology, and those who 'contain' it to retain the technical competence. These attitudes coincide with those which are apparent in JVs which perform R & D locally, and variously involve the local partner, and those which perform R & D overseas, usually in their own facilities and retain the results.

The maturity period of R&D as related to the lifetime of JVs in China is an important factor in the strategy of the partners. The local partner may participate in R&D as part of his technology acquisition strategy. Whereas the foreign partner may wish to internalise the development of new knowledge to increase his leverage on the JV, for global considerations, or because of the residual period of the JV. Establishment contracts often require some technology transfer, and some joint product development (Chapter Three), which is often structured to be locally intensive and concentrated in the area of local product adaptation.

Method

The important issues in the testing of this hypothesis are (a) the relationship between industry sector and the stage of development, the location where R&D is carried out, and the relative involvement of the partners, (b) the level of performance which coincides with the location and involvement of the partners, (c) the level of product adaptation as it coincides with the varying involvement of the partners in R&D in China.

An analysis of alternative locations of R&D is performed with the two dominant variables in the hypothesis, i.e. JV industry type (C6) and the stage of development (C9) is presented in Table H 16(a), which reveals that R&D is done overseas by the foreign partner alone in 96% of the sample cases, with 74% of these being in the 'growth' and 'mature' phases of their JVs. However, where R&D is done in China, a further analysis in H 16(b) finds that the majority (58%) of R&D is done jointly by the partners, with a further 33% being carried out by the foreign partner alone. There is *no indication* that industry type has any influence on the intensity of R&D in China JVs, as all the types of industries represented in the sample perform varying levels of R&D. Although there is an indication that the frequency of R&D increases progressively from the *establishment* phase to the *mature* phase.

Analysis of the correlation between R&D in China (C95) and JV performance (C20) as in Table H 16(c), seeks to identify positive effects on performance which are attributable to R&D. The results of which are inconclusive with no clear indication of correlation, e.g. the sum of *low* and *medium* exceed that for *high*. The wide dispersal of the findings is such that no trend is discernible, which in turn suggests that R&D, whether performed in China or overseas, is not correlated with the performance of the JVs. There is, however, significant evidence of a *containment* strategy on the part of the foreign partner in Table H 16(d) which shows that 96% of R&D carried out overseas is performed by the foreign partner alone. Although, once again, the correlation with JV performance is not significant, and must be tenuous at best. However, Table H 16(e) operationalises the variable related to product adaptation for the local market (C64), and that for R&D performed in China (C95), and finds that whilst 40% of R&D in China occurs when there is no product adaptation, 60% coincides with product adaptation, although only half of this is carried out jointly by the partners.

Results

The incidence of R&D in China is found to vary by sector, and inevitably by *industry*, with 92% of the sample JVs engaged in R&D in China being in manufacturing, with the frequency of R&D within this group being higher in the *mature* stage than in either the *establishment* or *growth* stages of development.

Where such R&D is done overseas, it is done by the foreign partner in a significant majority of the sample cases, with only one case of joint R&D being done overseas. The mode when R&D is done in China is where it is done jointly by the *partners*, and it is found that 50% of the subject 14 cases coincide with product adaptation, the balance clearly being developmental R&D.

Analysis of the corollary to the findings above related to *mature* JVs, is the issue of operation length as proposed in the hypothesis. The analysis of which reveals that based upon a more or less than 20 years remaining tenure in a JV's life, then over 70% of the cases engaged in R&D in China have the longer tenure remaining. An interaction between the incidence of R&D and a positive effect on performance is found to be unsubstantiable, although there must be a negative effect of R&D on accounting performance. Therefore, the findings of this analysis support the hypothesis.

H17 *JV size has a positive impact on local market performance.*

Aside from economic influences, the size of JVs in China can be limited by strategic factors to within parameters, either *directly* by the establishment approval process to an optimal given size based upon equity value or region, or *indirectly* by controls on prices, products, or production levels. The testing of this hypothesis requires analysis to determine whether economic size can or cannot be achieved, and whether maximum size constraints require alternative strategies. Given that economic size is bound to vary between cases in the sample, owing to industry factors and other circumstances. It is assumed that an economic size is reached when a JV is able to achieve subsistence, and sufficient economic size provides the assets which impact to make profits, and impact more to enable expansion, and so on.

It is reported that foreign firms seek local partners who have the attributes which come with size, e.g. government and customer contacts, appropriate financial status and resources, and market access and distribution. In China such attributes would be typical of an SOE, which despite their world magnitude size rarely have a high degree of business competence, or more than 10% market share, owing to the supply system which they were created to serve.

The importance of this hypothesis is based upon the findings of other researchers, who suggest that performance is positively correlated to size, owing to the abilities to benefit from economies of scale and scope and investment in technology. Although, it has also been found that there is an appropriate size according to environmental circumstances, and that JVs should be created having sufficient critical mass to enable a broad competence.

Method

There is a wide variation in industry, equity value, employee numbers and income / investment per employee. turnover, and age, and no trends are apparent even within JVs having a common parent, e.g. *Gamma #3* Equity : Turnover 96 = ratio 1 : 6, whereas *Gamma #7* – 3 : 1. *Gamma #3* has six times the equity value of *Gamma #7*, and many times the number of employees. *Gamma #3* is mature at 9 years old, whereas *Gamma #7* is only 1 year old. The variation throughout the sample is evident from the standard deviation of various characteristics detailed in Appendix 2 Table H 17(a), which reveals a wide divergence from the *mean* in all cases, indicating a high degree of variability. So, therefore, it is not valuable to compare these businesses one against another, although it is possible to use a variety of indicator variables related to e.g. market access, distribution channels, sales locations, and regional offices, in Tables H 17(b), (c), (d) and (e), to indicate the effect of JV size on the performance and indicator variable interaction. It is generally found that in terms of market access small JVs tend to acquire a broader spread of geographic market access, although they also have the greatest variability in terms of performance (H 17(b)). Medium sized JVs, however, are the mode in the acquisition of distribution channels (H 17(c)), albeit that all their channel access has been developed by them, and the mode of their performance is at medium levels. Small JVs in the same analysis appear more flexible in acquiring access from all sources, performing at medium and high levels in over 80% of small JV cases, and develop over 50% of their access channels themselves. This characteristic flexibility is also found in the analysis of sales location (H 17(d)), in that small JVs have the greatest variability in their strategy. Whereas, medium sized JVs are mainly locally intensive, and large JVs mainly centrally intensive. Small JVs also have the greatest concentration of performance at the medium and high levels. Similarly, in the use of regionally established offices and branches (H 17 (e)), smaller JVs tend to be regionally concentrated, and once again performance in smaller JVs is the mode in the analysis at medium and high levels.

There is another perspective to the issue of size, in that infrastructural and physical factors can limit the size of a JV owing to distance costs, transport limitations, local protectionism, or for example to under US$ 5 million to remain a local project. There is evidence within the sample that foreign partners in 17 of the sample cases have other interests in China for one or several of the above reasons, as is evidenced by analysis of C104 in Appendix 2 Table H 17(f). Therefore, a situational limitation to size creates units which are appropriate in size to impact on their local market, and this applies both in the case of JV headquarters and also regional activities.

Results

There is no evidence that any size, other than an appropriate size, has any influence on performance. There is evidence that the infrastructural and physical conditions require a multiple-unit and optimal-size strategy, which in the majority of the sample cases tends to be smaller JVs, which clearly operate more flexible and adaptive strategies. There is no evidence that establishment size / equity limitations have hindered JVs in achieving viability. All of which suggests that size can be affected by the factors discussed above, beyond which it is found that case specific appropriate size can impact on *its* local market, and on this basis the findings support this hypothesis.

H18 *The age of a JV and the duration tenure of the investment are correlated to JV performance.*

This hypothesis is important because it involves several of the key features of an investment decision in the formation of JVs. These are related to the *age* i.e. the lead time involved, and the *duration and tenure* of JVs i.e. the lifetime during which the investment has to be recovered and profits made. This latter point also dictates the extent of the investment commitment of the foreign partner, which can only be made if there is a known correlation with performance. Other researchers have proposed that age is important because older JVs are expected to have filled the best niches, acquired the most effective routes to market, and the best connected partners.

The duration / tenure of JVs i.e. the lifetime is said to be more important than age because of the achievement pressures they impose on the partners, e.g. shorter duration JVs are said to be more risky because it is progressively less likely that sufficient return can be generated at full potential.

The testing of this hypothesis examines the influence that JV age has on performance, i.e. at which stage of development the JV is in, and how its performance has developed as compared to less stage-advanced JVs. Also from the perspective of investment and strategy and how these are influenced by the lifetime tenure of a JV, and the influence that this factor has on performance.

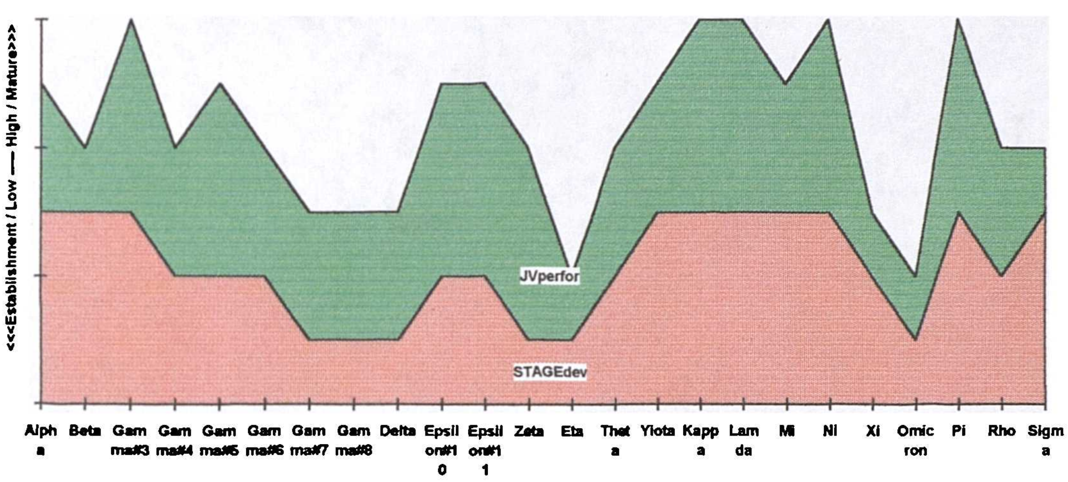
Method

The age distribution within the random sample varies from newly established JVs through to 'mature' JVs having a maximum sample age of 14 years. The analysis of performance in terms of years is not relevant owing to the variation in the rate of development among the sample cases. The transition age from one phase to another appears to be of the order of 4 years, as between the *establishment, growth, and mature* phases, and age is coded accordingly in the analysis in Appendix 2 Table H 18(a). An analysis of income generation along the same age grouping in Appendix 2 Table H 18(b), confirms that whilst some two-thirds of both *establishment* and *growth* JVs are profitable, some are slower in developing and remain at the *break even* level longer, although the majority of *mature* JVs in the sample are profitable.

An analysis of the age grouping at which performance is achieved in Appendix 2 Table 18(c), reveals that an increase in age does not make JVs proportionately more successful than younger ones, despite that the contrary might be expected given their greater opportunity of 'learning by doing'. However, it is apparent from the analysis in Appendix Two Table H 18(d) and Figure 7.15, that JVs achieve maturity at different ages and that *mature* JVs perform at high levels more frequently than other development stage JVs. Thus it is shown that the stage of development of a JV is correlated to performance.

Figure 7.15

The Incidence of The Stage of Development and Performance of the Sample JVs.



Source Derived from the 24 case studies hereto The variable data is ordinal : C9 - Stage of Development - Establishment = 1 Growth – 2 Mature = 3 / C20 - Low = 1 Medium = 2 High = 3 This figure illustrates incidence and is not proportional.

An analysis of JV age groupings and JV tenure period groupings finds that more recently established JVs have longer contractual periods of tenure. An analysis of *age* and *establishment period* (C4 and C5 coded into quartile groups i.e. JVageII and JVperII) in Appendix 2 Table H 18(e), reveals that the incidence of the longest tenure JVs in the sample are inversely proportional to the age of the JVs. Whether establishment tenure has any effect on performance is investigated by an analysis of JV performance C20 and JV period C5 (coded data) in Appendix 2 Table H 18(f), which indicates that there is a relationship between performance and JV establishment period.

Results

The link between *age* and *performance* is tenuous owing to the sectoral variation in the sample, and it is found that JVs progress through the stages of development at different rates (see Chapter Seven 1(e)). The stage of development is found to be positively correlated with performance, and there is a clear trend towards a higher level of performance with increasing maturity. Newer JVs tend to have longer periods of contract tenure, and there is an absence of correlation between age and performance, and a positive correlation between the stage of development and performance.

The incidence of early maturity and performance of younger JVs, suggests that JVs with longer contract tenure periods have higher levels of performance. All of the high achieving JVs in the sample have long contract tenure periods, and a wide range of ages, which includes 43% of cases being less than 5 years old. Therefore, on the basis that there is a clear correlation between the stage of development and performance, and a probable relationship between JV contract tenure and performance, then on balance this hypothesis must be supported.

H19 *There is an interaction between pricing strategy and length of operation*

Various propositions have been made as to the most important strategic factors related to JVs in China. Previous research has found that product quality, promotional effort, and quality of service are critical factors, and that price cutting and special offers do not appear to influence consumers. The contrary position has also been found in that the Chinese consumer is said to be frugal and ascetic, and is value conscious and price sensitive to the point that low cost is the dominant criteria. It is also suggested that effective pricing strategy is experience related, and that longer established JVs are more successful because they have had time to refine their pricing strategies. Yet further research finds that JV strategy must fit environmental circumstances which may change over time. The overall suggestion being that pricing strategy is an evolutionary and experiential process, which can only result from length of operation.

The linkage between pricing strategy and length of operation is very important in the formation of JV strategies because it impacts on the key components of the level of investment, viability, contract tenure, risk, and income.

Method

The proposition that product quality, promotional effort, and quality of service could influence the interaction central to this hypothesis, requires further detailed investigation of strategy. An analysis of numerous descriptive variables as follows, characterises the sample JVs as being advanced high-quality suppliers, which suggests that price would likely be commensurably higher than inferior local competitors. The products of the sample JVs are found to be the state-of-the-art in China in 96% of cases (C63), and that the majority carry the foreign partners' international brands (C72). In terms of quality, the products have international quality accreditation (C80), in over 70% of the above cases. The fact that local technology was inferior (C88) in 91% of cases, and that the JVs inherited the local partners' regional distribution channels in almost 50% of cases (C138), further strengthens the case made for the influence of quality and promotion.

However, with the majority of price positioning in the sample being at the 'top end' (C108), with price sensitivity being 'high' in 75% of cases (C106), and competition driving prices in over 70% of cases (C111), it is clear that price is a very important factor, and the dominant variable within the strategies of the sample JVs (see also H8 hereto).

The relationship between price and length of operation suggests that pricing strategy is refined over time. If this is the case, then 'older' JVs within the sample would have established their products' price position, at a level which fits with market conditions and thus minimises price sensitivity. An analysis of C4 (C173 quartile coded) the age of JVs, C106 price sensitivity, and C108 price positioning in Appendix 2 Table H 19(i), does not provide a significant indication of a relationship between the age of JVs and pricing strategy. The only indication available from the above is that 'older' JVs appear to have been 'top-end' product businesses, whereas more recent entrants have tended to be more 'bottom end' and 'compliant' JVs. This information suggests that more recent entrants have addressed the more modest end of the market, in recognition of the price sensitivity as discussed above. An analysis of the age of JVs i.e. C173 (C4 coded), and price sensitivity i.e. C106, in Appendix 2 Table H 19(j), seeks to identify any greater price sensitivity attaching to either 'older' or 'younger' JVs based upon their different price positioning tendencies. Although once again, no significant indications are found other than slightly more 'high' level sensitivity to the prices and products of 'newer' JVs, than to those of 'older' ones. High levels of price sensitivity often lead to high levels of price volatility, as the supplier attempts to find an optimum level. This can be particularly difficult in a rapidly growing market, and especially when the supplier lacks experience, as is the case in the 'younger' sample JVs. An analysis of JV age C173 (C4 quartile coded), and the causes of a price shift C111, as in Appendix 2 Table H 19(k), reveals that all JVs experience costs driven influences on prices, whereas 'younger' JVs experience more competition-driven price fluctuations. This latter influence on price results from the more competitive sector into which they have entered, although it may also result from their inexperience in the market, as compared to 'older' JVs which have refined their strategies over time.

Results

The sample JVs are characterised by these analyses as being focused at the 'top-end' of the market, where they experience a high level of price sensitivity which reduces slightly with increasing age. The suggestion that 'older' JVs i.e. those having a greater length of operation, ought to have a more refined pricing strategy, is not confirmed by the findings, except insofar as 'older' JVs tend to focus more of their activities on the 'top-end'. Thus the relationship between pricing strategy and length of operation is a tenuous one at best, and it is this lack of a concrete interdependence, and lack of any evidence of age, i.e. length of operation, influence on price which refutes this hypothesis.

H20 *Industry sales and profitability growth has a positive influence on IJV accounting return and domestic sales growth, and a negative impact on IJV exports.*

This proposition suggests that JVs direct their efforts towards the domestic market at times of growth, to acquire industry sales and profitability at the expense of exports. Market expansion and economic growth in China have increased the market size throughout the sample period. Consumption has increased with economic growth, and price inflation has increased costs and prices, although competitive pressures have had the effect of containing price increases somewhat (see the testing of hypothesis H19 hereto). Many JVs have failed to meet export targets, which has often been blamed on product quality (see case study *'Beta2'*), although it has been noted in the literature that this tends to coincide with times of high levels of domestic demand.

The strategic posture of the JV may be derived from the global strategy of the foreign partner, which may have a measure of exports as an integrated component of its global strategy, or the strategy may be based upon local market access. It has also been found that location specific advantages drive strategy towards exports in the case of regional partners, although the majority of US and European partners are found to have local market access as their main goal. The importance of this hypothesis is based upon the fact that whilst JVs are concentrating their efforts on the growing local market, they may be ignoring the current and future potential of export markets.

Method

Analyses of the performance of the sample JVs reveals that turnover has continued to increase albeit at a declining rate owing to the maturity of the majority of the sample JVs, and the economic 'cooling' measures of the early 1990s. The sample JVs' profits follow a similar trend with the rate of profitability showing a 2.2% (i.e. a 17%) decline across the whole sample through the sample period. Given the above beneficial market conditions, it is perhaps not surprising that 58% of foreign partners enter into JVs in China with the motive of accessing the local market (C7), and only 5% of local partners in the sample identify exports as their motive for JV participation in China (C8). 87.5% of the sample JVs report that they have 'reasonable' export and foreign exchange targets to achieve (C18) which, amongst other targets, are met by 79% of JVs (C17). Therefore the motive of the majority of the sample JVs is to address the local market in China.

The local market intensivity of JVs is evident in the following analyses. Only 30% of the sample JVs operate an independent export strategy (C103), and only 4% of cases export to third markets through the JVs own distribution channels (C74). A similar number i.e. only 4% of local partners in the sample export JV's products through the local partners' main business' distribution channels (C75). Similarly, only 12.5% of foreign partners ever incorporate JV 'new' brand products into their international distribution system (C76), and 83% of cases export only foreign partners' brand products through his international distribution channels (C77).

This hypothesis suggests that the rapidly expanding high growth opportunities available in China have enticed JVs to concentrate domestically at the expense of exports. The sample JVs' performance discussed above certainly evidences their engagement in a rapidly growing domestic market, whereas their export performance is found to fail to meet targets in one-third of cases (C84). These two variables, C84 *export and foreign exchange targets*, and C85 *sales and turnover targets* are analysed as in Appendix 2 Table H 20(a), to compare achievements in the domestic and export markets. This analysis finds that of the 8 cases which failed to meet export targets, 6 of them did manage to meet domestic sales targets. Of the 7 cases which did manage to meet export targets, 4 of them also met domestic sales targets, a further 2 exceeded domestic sales targets, and 1 had no targets at all. Where export targets were exceeded in 2 cases, they were also exceeded in domestic sales. In the 7 cases where there were no export sales targets, 2 of them also had no domestic target, and in the case of the 5 which did have, 2 were met and 1 was exceeded.

It is clear, therefore, that performance to domestic target levels has been achieved when export targets have and have not been met, and there has even been achievement when there has been no target on exports. Only in the case where targets were exceeded in exports, did export performance equal domestic performance. However, more JVs met and exceeded domestic targets than export targets, with significant levels of achievement (Table H 20(b))..

Results

The achievements made by the subject JVs in the domestic market as compared to their shortfalls in meeting export commitments, leaves no doubt that JVs have been drawn by market opportunities in sales, and the importance of rapid establishment of JVs. Overall, almost twice as many cases *met* and *exceeded* domestic targets, as *met* and *exceeded* foreign exchange targets, despite the fact that there are less than half as many cases free of domestic targets as there are free of export targets. So the strategy of addressing the local market opportunities has enabled JVs to have benefited substantially, at the expense of opportunities in export markets. The balance of the evidence, therefore, supports this hypothesis.

H21 *JV performance in China is correlated to the level of synergy derived from the complementarity between the partners.*

Whilst there can be synergy in a JV in which both partners have made very similar contributions, e.g. to achieve an economic size, or to combine distribution or production, a far more robust arrangement exists when the contributions are different and complementary, and combine to fulfil the motives of the partners. If the benefits deriving from joint efforts, minus the transaction costs specific to the formation and operation of the JV, remain greater than the sum of those benefits from exploiting firm-specific advantages separately, an IJV creates synergies and enhances economic rents to the partners.

Although, contributions to JVs need not be different to those contributed by the other partner, nor need they be components missing from the assets of either partner, to enable synergistic interaction. Synergy can take place as a result of the sum of similar components from similar, and often even erstwhile competitor firms. The level of synergy achieved is related to the level of complementarity of the contributions. Other researchers have found that the most important synergies for JVs in China are in the areas of *co-operation*, *objectives*, and *management*, and not necessarily in buildings, machines, and products.

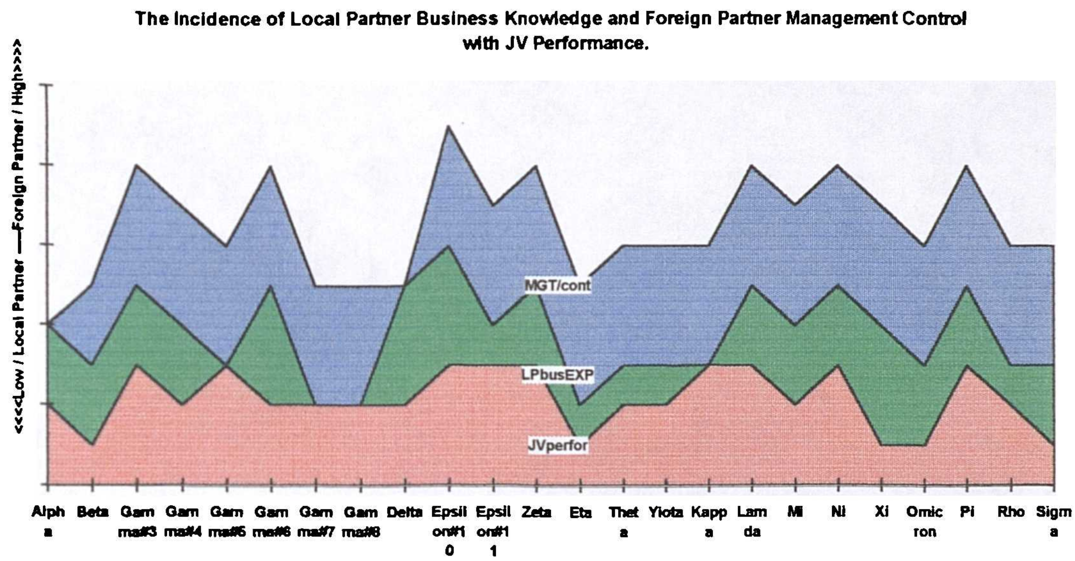
Method

The testing of this hypothesis focuses on the incidence of synergistic possibilities based upon partner motives and contributions, and their relationship with performance. Several by-variable analyses are carried out to characterise the sample JVs. It is found that the majority of the sample JVs seek *market entry* as their main motive (C7), and they receive complementary contributions in the form of *site* and *facilities* from the local partner in over 85% of cases (C39). Similarly, 73% of local partners seek *products* and *technology* as their motive (C8). These are examples of contributions which are inaccessible and essential to the recipient, and thus are implicitly synergistic.

The nature of the partners and the effectiveness of their inputs can determine whether synergies develop which can influence performance. An analysis of JV performance (C20), the extent of the local partner's market coverage / access (C40), and the improving effect of the foreign partner's technology and products insofar as the local suppliers technology was inferior (C88), as in Appendix 2 Table H 21(d), finds that aside from the one case identified as having the same level of technology as pre-existed the JV, all other cases in the sample have provided the local partner with access to superior technology. The local partner has in turn provided the JV with national market access in 56% of cases, the synergistic effect of both of which is evidenced by the 72% of performance (almost half of which was achieved at a 'high' level) which coincided with both the partners' inputs, as compared with the 11% of high level performance when there was no local partner contribution of market access.

A similar interaction can be found in the area of management where the local partners' business knowledge and experience (C41), when coupled with management control (C47), can be seen as in Appendix 2 Table H 21(e), to have influenced JV performance (C20). The result of the analysis between foreign partner management control (C47), and local partner's business experience (C41), reveals a significant performance produced by an interaction when both partners' contributions create a synergistic effect in 85% of all cases. This compares favourably with the 5% of cases which result from 'unequal', and the 10% of all cases which result from 'local partner inputs' alone. It is found in Table H 21(e) that achieved performance in the sample JVs is highest when both parties contribute valuable inputs, i.e. when synergies are greatest. For example, when the foreign partner has management control, performance increases in line with an increase in the adequacy of local partner contributions.

Figure 7.16



Source derived from the 24 case studies hereto. The variable data is ordinal : C20 - JV performance Low = 1 Medium = 2 High = 3 / C41 - Local partner's business knowledge / experience Low = 1 Adequate = 2 High = 3 / C47 - Management Control Shared unequally = 1 Foreign partner = 2 Local Partner = 0. This figure illustrates incidence and is not proportional.

It follows, therefore, that high levels of synergy in JVs promote continuity and security of tenure for contributing partners, by placing a high value on partner inputs, which result in synergy whilst enhancing JV performance (see also hypotheses H10, H11, H11a and H11b hereto).

Results

The evidence is that the synergistic interaction of inputs has produced a significantly improved performance in the sample JVs, and also promoted continuity and security of tenure especially for foreign partners, on whose inputs the sample JVs are most often dependent. The inputs / synergy / performance relationship is evident in both enabling inputs and also in management, with the incidence of influence on JV performance being small in the absence of synergy, and the evidence of the correlation between partner synergies and performance being high. Thus the findings herein support this hypothesis.

3. Summary

This chapter has empirically addressed the influences on the management and strategic posture of EJVs in China. The large number of hypothetical propositions and the wide ranging variable base has identified the main economic, management, marketing, risk, strategic, environmental, and synergistic effects on JVs. The conclusions drawn from these findings are discussed in section 1 in the next chapter, with the resulting implications for existing and prospective foreign joint venturers, and also for Chinese partners and the authorities in China being outlined in sections 2 and 3.

Chapter Eight

Conclusions and Implications.

This chapter presents a summary of the findings and the main implications of this Thesis drawn from the testing of the 21 hypotheses as formed in Chapter Five and tested in Chapter Seven. The format used in Section 1 herein is that referred to in Chapter One Section 6, which lists the conclusions in line with frequently occurring subjects in the literature, i.e. Costs, Management Control, Market Access, Exports and Foreign Exchange, Advertising, Consumer, Motives / Competence Strategies, Competencies / Conflict, and Performance and Competition. Section 2 takes these findings a stage further in defining the implications for existing and prospective foreign joint venturers in China, and also for Chinese local partners and the local authorities who are inevitably involved in the process. Whilst this research has added to and refined the findings of some other research in this area, it has also identified critical areas for future academic research which are discussed in Section 4.

1. Conclusions

(a) Costs

The issue of the establishment of JVs in China has been addressed by many international business scholars along the lines of the negotiating style or prowess of the parties, or their respective culturally driven tendencies (Adler et al (1992), Eiteman (1990), Kirkbride et al (1988), Lee & Lo (1993) Stewart & Keown (1989). Whereas, this research finds that such negotiations have not been dominated by cultural influences, but rather by ownership, control and fiscal issues for purely business reasons. A major area of concern has been the potential and opportunity for JV establishment negotiations in China to inflate asset values, the effect of which have been found to be significant and in proportion to the incidence of intangible contributions, owing to the undefined and negotiable value of these assets. The nature of the contributions of the partners differs as between the foreign partners who invest finance in almost all of the sample cases, and the local partners who invest finance in hardly any. So the local partners 'feed' the asset value inflationary process most often, owing to their mainly intangible contributions, which results in a need to negotiate the relative value of establishment assets. These findings explain and refine the observations of Speece and Kawahara (1995) that 'Chinese companies are generally unable or unwilling to recognise the value of any type of intangibles', insofar as they are unable to accept a valuation of their own contributions because that would negate their negotiating position, and unwilling to accept a valuation of their partner's contributions for similar reasons. The majority of case studies hereto indicate that inflated asset values have resulted from establishment negotiations, which have most often involved the land use investments of the local partners. The high value placed upon land use contributions in establishment negotiations was acknowledged by Prime Minister Zhao Ziyang when he told a group of European bankers in August 1986 that China would be prepared to lower these costs to attract further fdi (Tai 1988).

Just as the inevitably elevated establishment costs affect ROA/ROI measures, frequent and unique operational costs also affect the profitability of JVs. The evidence is that the majority of cases being affected are affected by costs in the areas of finance and market access, although a high proportion of JVs are profitable when compared to those in other locations, and performance is at a similar or higher level in more than three-quarters of cases, indicating that the level of such operational costs is tolerable. Furthermore, a close relationship is identified between JV performance and the viability of JVs, on which basis a favourable comparison with ROI in other locations is found in the sample. This is in contrast to the findings of Rondinelli (1993) who suggests that operational costs are at a substantially high level and outweigh many of the advantages available, making it difficult for foreign partners to make an adequate ROI from their participation in JVs in China.

The location specific advantages sought by foreign partners in JVs in China are found to exist in production cost advantages over similar operations in other locations, although in terms of local market opportunities prices are also found to be proportionately lower, resulting in comparable levels of profitability. Overall, JVs do not appear to be excessively burdened with high levels of *common* costs, which are found to be comparable in their effect on JVs to those elsewhere, which further contrasts with Rondinelli (1993) who found that 'it costs substantially more to operate in China than in many other locations in Asia'. Although, some areas such as market access, for example, are found to be a cost burden, owing to the low level of economic efficiency of available distribution channels, which confirms the findings of Speece & Kawahara (1995), Seo (1993), and de Bruin & Jia (1993). Therefore, to achieve market access in certain cases, JVs must either pay more or invest more, in either case the level of market underdevelopment is found to have an overall cost implication for JVs, whereas Luo & Chen (1996) found that such marginal costs are low compared to the benefits. R&D intensity, as an indicator of co-operation and market sensitivity, is found to vary by industry / partner / operation length, and to have a negative effect on accounting performance, with no significant beneficial effects having been identified in JV performance, which position agrees with Luo & Chen (1996) except that no positive relationship is identified between R&D in the sample and market measures.

(b) Management Control

Almost all of the sample JVs are with SOEs, the majority of whom are inefficient and outdated companies in need of products and technology, and other contributions that foreign partners frequently make towards JVs. The foreign partner most often seeks to acquire market access which SOEs most often possess, given their access to historic distribution channels. However, foreign partners are cognisant of the inherent planned economy inefficiencies in the SOEs, as also found by Strange et al (1997), Hussain & Zhuang (1997), McMurray & Woetzel (1994), and Shaw & Meier (1993), and seek to avoid their investments being controlled by the local partner. Although in contrast, the findings herein indicate that local partners have the level of competence required to run the JVs in three-quarters of the sample cases, which implies that they are also able to act opportunistically, and herein is found the protective strategy driving the acquisition of management control. As a result most foreign partners in the sample take equity majority in JVs, almost all of whom also demand management control, their aim being to have some measure of self determination. To this end the large majority of them retain critical and independence empowering functions under their own control, and seek to marginalise the local partners irrespective of which partner has management control. Although there is no significant evidence that such retention of proprietary knowledge by way of exclusive foreign partner management control, results in the loss of any beneficial synergistic effects, except where local partners are marginalised by exclusive control such that they cannot make effective contributions.

Management control is found to offer a measure of the protection, self determination, and partner dominance that the possession of equity majority and management control implies. The local partner may have relinquished management control to the equity majority position of the foreign partner, but its affiliates continue to have some influence through the establishment approval terms, statutory controls, and targets, which are frequently reviewed and adjusted by the approval authorities, who are very often associates of the SOE partner. These same approval authorities impose targets for interdepartmental political reasons as between themselves and the control authorities, so JVs which are *both* controlled *and* approved either centrally or regionally i.e. under the same authority, are found to have reasonable targets to meet or none at all. Whereas those which have central approval and local control, or vice versa i.e. involving different authorities, have a high level of targets imposed upon them. Thus, these findings conflict with those of Yigang Pan (1997) who says that partnering with an SOE owned by a high level Ministry causes other authorities to 'bend over backwards' to help in times of need. Such target and regulatory mechanisms are identified as taking the form of product approvals, prices, volume controls, and achievement levels, and make the foreign partner responsible to the authorities, despite a common belief among foreign partners that equity majority and management control ought have resulted in greater independence. The resulting lack of *total* independence in spite of the equity and management control position in the JV, has resulted in the majority of foreign partners in the sample selecting a WFOE mode for succeeding investments in China, e.g. case studies *Beta*, *Gamma*, *Delta*, *Eta*, *Theta*, *Lamda*, *Ni*, *Xi*, and *Rho*.

(c) Market Access

The main motive of many foreign companies in establishing a JV presence in China is to gain access to the potentially large market. JVs formed with local partners who have experience in the same industry, acquire a high level of appropriate market access in a short period. Although the concentration of market share in the sample being greater in the HQs and nearby areas than nationally reveals that many local partners are locally intensive. The effectiveness of the local partners' central channels reduces the further away from the HQs province that market access is sought. This further defines many SOEs as being mainly 'local' firms with strong local distribution channels and a historic dependence upon the central supply distribution system for widespread market access, which contrasts with the findings of Bjorkman (1996) who suggests that few Chinese companies were able to provide any market access. The extent of the market accessed becomes more dependent on regional operations, either inherited or developed by the JV, the more widespread is the market sought, although there is no doubt that the sample JVs would be more locally concentrated if the local partners were unwilling to contribute their widespread market access. All the local partners hereto have provided whatever extent of access they were able to, the quality of which has been varied, thereby placing additional pressure on the issue of partner selection. It follows that the importance of partner selection to acquire effective regional operations is proportional to the extent of the widespread market access sought, whereas Tromsdorff & Wilpert (1991) paradoxically did not include market access in their 20 success factors for JVs in China.

The command economy supply system infrastructure continues to dominate distribution channels in China keeping them at a low level of development, which in almost two-thirds of the sample cases has required investment to develop routes to market, and in turn imposes costs, delay and requires management. The majority of JVs do not find cost to be a limiting factor in accessing the market, although the fact that some are affected by the cost and the lead times involved results in the majority of firms being regional rather than national. It has been found that the level of performance is correlated to the stage of development of JVs indicating that performance increases over time and does so in line with the extent of the market accessed.

The low level of distribution channel development is characterised by the absence of agents, distributors and a variety of wholesalers, resulting in several of the sample JVs having internalised the distribution process, and reduced costs by co-operating with complementary JVs who experience similar problems. Other JVs have developed access by way of representation through regional offices and local staff. Thus, accessing the wider market increases costs, which more than three-quarters of the sample JVs incorporate into their national pricing, which in turn results in increased price sensitivity and affects competitiveness in regional markets against local competitors. However, the expansion of market access is not always geographically progressive, because those JVs which have achieved 'widespread' access have not sought access to 'HQs' and 'nearby' regions separately. So, the sample JVs have achieved the level of market access they sought, with widespread access having been achieved in over half of the cases.

The proposition that physical and infrastructural factors are limitations to market access is not supported, which is contrary to the findings of Luo & Chen (1996) and indicates that the Government's regional industrial strategy to overcome communications and transportation shortfalls as outlined by Luo & Tan (1997), has been overcome by infrastructural developments and JV regional strategies. In contrast to which the time and work required in market development are found to be the main limitations, alongside provincial protectionism which is identified as a major impediment when a local competitor exists. For example, it is found that local / provincial authorities impose more reasonable targets and frequently favour local products. Overall, no dominant single impediment to market access is identified, rather that a large number of factors of underdevelopment compound and impede access, which confirms the findings of Tseng et al (1997). Therefore, the overall indications are that JVs should establish their target market in terms of size, access limitations, costs, ROI, and competition when deciding on JV size and regional strategy.

(d) Exports and Foreign Exchange

General business targets and controls imposed by the authorities for development strategy reasons tend to be complied with by JVs, whereas export and foreign exchange targets are often viewed as reducing self-determination by directing the focus of the business. Almost twice as many cases meet and exceed domestic targets as meet and exceed export targets, despite the fact that there are less than half as many cases free of domestic targets as there are free of export targets. This indicates that there is a far greater concentration of effort towards the domestic market than there is in developing exports. Indications are that a wider strategy limits exports in many of the sample cases for a variety of JV domestic market concentration and third market JV protection reasons. Despite the fact that within the sample alone there exists a considerable price / cost competitive advantage, further scale economic possibilities, large regional markets and no apparent quality, specification, volume, or regulatory restrictions, these targets are frequently not being met.

Export strategies are most often driven by the foreign partners to the JVs, given that they frequently retain export control, and have global, multinational, or specific third market or regional strategies to consider. Whilst export targets are imposed on newly established JVs less often than previously, they are still commonplace in JV terms of approval. The requirement to produce foreign exchange by way of exports to enable component imports and repatriation of profits has been relaxed to a level requiring that a current account balance evidences a JV's ability to acquire foreign exchange and repatriate funds. Other common approval requirements have also been removed, signalling a softening of establishment terms and authority control. However, the indications are that JV concentration on the rapidly growing local market is being done at the expense of exports, which is evidenced by performance in the local Chinese market as compared to exports.

(e) Advertising and Promotion

Promotion is partly used herein as an indicator of market maturity and development, and reveals that advertising has been mainly an introductory and establishment tool. As such, it has been used by the majority of the sample JVs, even those in industries in which advertising is not prevalent, and even then it has succeeded more often than it has failed. It is found that advertising is highly correlated with successful JVs in industries in which advertising is prevalent, and also coincides with success in two-thirds of cases in industries in which advertising is not prevalent. However, advertising usage is comparatively low in China and overall produces a moderate positive effect on sales, which confirms the findings of Luo & Chen (1996).

The low level of competition in some industries is often cited as the main reason that advertising is used mainly as an introductory vehicle (over two-thirds of cases), suggesting that if there were greater competition then there would be a reason for continual advertising. Once advertising has introduced a product as an alternative to a clearly inferior local product, the proportion of advertising usage to sales is found to decrease, in contrast to Zhou & Meng (1997) who suggest a high rate of annual growth in advertising.

Advertising cannot be responsible for the growth being experienced by the JVs in the sample owing to the relatively small scale of advertising, and neither can there be the ambivalence towards the messages of advertising as proposed by Luo & Chen (1996), so clearly there are other forces at work which contribute to such achievements. Even when the sales growth values contained in the data are corrected for economic variables such as volume growth, price, and inflation, to give a more modest increase in turnover, growth could still only partly be contributed to by the sample level of advertising.

(f) Consumers

Economic development in China is inevitably creating a changing and growing consumer base, a small fraction of whom are currently found to have a low level of price sensitivity whereas three-quarters have a high level, from which we may infer that consumers may be continually striving for a better deal. There is twice as much low level sensitivity to top-end prices than there is high level sensitivity to bottom-end prices. Thus, it is found that the Chinese consumer displays all the characteristics of being frugal in terms of his level of sensitivity to the various price levels, and JVs are found to be highly sensitive to consumers' cultural traditions, especially in the area of prices.

The concept of value is no longer new to the Chinese consumer, who faces an increasing number of competitive products on offer, although, price remains the main value yardstick, contrary to McGuinness et al (1991) who suggest that price adjustments do not influence consumers. Analysis of the sample data reveals that price increases resulting from economic change lead to high levels of price sensitivity, and similarly where prices are driven by competition resulting in some price increases and some decreases, the consumer is once again price sensitive in search of value, as suggested by Rowley & Lewis (1996) and Luo & Chen (1996) in that Chinese consumers are value conscious and price sensitive.

The recognition of the importance of cultural issues and 'Guanxi' is evident from the sample by the high number of regionally located sales staff, the majority of whom are experienced transferees from the local partners and many of whom have the 'right' 'Guanxi' connections which are found to be effective in almost two-thirds of cases. The effectiveness of cultural connections suggests that relationships may indeed be more important than in western markets. As a result performance and sales strategy are found to be highly correlated with the cultural characteristics of relationships based upon proximity to the consumer, which indicates the importance of sales force marketing, which is in turn correlated with a positive impact on profitability.

(g) Motives Competence Strategies

A study of the motives and acquired competencies of the partners reveals that more than three-quarters of local partners enter into JVs to acquire 'state of the art' products, technologies and brands because the large majority of them were manufacturers of similar products which had fallen far behind international standards during the years of 'isolation'. In over two-thirds of the cases in which technology is inferior in local companies in a similar business, it is found that the large majority of local partners have the acquisition of modern technology as their main motive for entering into JVs.

Local partners succeed in acquiring an independent or developable level of competence in proprietary knowledge in three-quarters of cases gradually through their involvement and largely by way of assimilation, despite the fact that almost half of technology transfer is contained within expatriate staff. Similarly, brand ownership is not easy to protect in a JV and is a major reason for equity majority and management control, and even for the establishment of WFOEs. Many JVs take a protective stance and retain proprietary knowledge, but in cases where exclusion and containment strategies are not employed, the local partner assimilates a large body of developable knowledge. When these strategies are employed, the local partner's assimilation of knowledge is greatly reduced, especially when the foreign partner has management control. Although, in reality the assimilation of knowledge may be just delayed, because the indications are that a high level of knowledge is assimilated eventually through the almost half of local partner management transferees into the JV management's hierarchy. Therefore, assimilation especially in the area of technology takes place at all stages, although it is greatest in the mature phase of JVs, when there are also fewer cases of low level assimilation.

(h) Competencies Conflict

Whilst the balance of dependence between the partners is found to be a predictor of conflict, there is no evidence that the process of deliberate dissemination results in conflict, but there is significant evidence that the achievement of independence in proprietary know-how results in conflict. The tendency towards conflict is identified as a developmental process evidenced by the increasing propensity for conflict from the *establishment* phase through to the *mature* phase. The issue of conflict usually coincides with a level of dependence of one party upon the other, and increases with a growing independent level of competence derived somewhat from the dissemination, but mainly from the assimilation of proprietary knowledge. Thus, the *establishment* phase consists mainly of mutual dependence, which is significantly reduced in the *growth* phase with decreasing dependence, and further in the *mature* phase with increasing independence.

So this study confirms what other research has previously found in that conflict increases with the dissemination of an independent level of a wide variety of proprietary knowledge. The JVs most likely to suffer from conflict are those which allow an independent competence in the local partner. Conflict is worse in some areas than in others. For example, it is found that conflict in the area of technical competence is most often terminal, whereas conflict in areas of finance and management are less likely to be because they are less likely to independently empower a local partner. So it follows that the dissemination of proprietary knowledge destabilises the shared arrangement under which the JV was originally formed by removing much of the interdependence of the partners.

Interdependence is eroded by the commonality of any of the subject technology, which is more likely to empower a competitor than is the total absence of any technology transfer. Both planned and unplanned dissemination can empower a competitor and result in conflict, although it is found that planned technology transfer would tend not to empower a local partner to a level of independence. However, the extent of planned transfer is augmented by the assimilation of additional knowledge to achieve an unplanned level of independence. Overall, it is found that most knowledge is assimilated when materials / components are supplied by the foreign partner, i.e. when access to knowledge is available.

It is also clear that where proprietary knowledge and especially technology are retained within the balance of interdependence of the partners, then JVs tend to continue. This confirms the findings of others, who advise that JVs which lack interdependence owing to dissemination / assimilation frequently suffer from conflict and failure. The retention of proprietary know-how, especially technology, appears to afford greater leverage and self-determination than management control, and greater certainty of tenure than contract terms, although retention is more effective when associated with management control.

(i) Performance and Competition

JVs by implication have greater competencies and, therefore, should be better disposed to perform, particularly given that advantages derived from partner contributions are observed to occur more often than disadvantages. Although, the evidence indicates that efficiency and money making are highly correlated and that no easy money is made within the sample. Economic factors are shown to account for some of the influences affecting costs and prices, resulting in increased profits and ROI, which are comparable with those of similar operations in other locations.

There is an 'appropriate' size of JV which is dictated by economic factors, and infrastructural and physical conditions indicate that optimal size and multiple unit strategies dictate the extent of market access, which has frequently led to regional strategies in the sample. It is found that market access and market share take time to achieve, therefore, some 'establishment' and 'growth' stage JVs achieve high levels of performance slower than 'mature' JVs, which tend to be older and more successful than younger ones. It follows that the stage of development of JVs is correlated to performance in that they perform at high levels more frequently owing to their accumulated experience, and there is also a significant relationship between performance and JV tenure period. Newer JVs tend to have longer tenure periods i.e. the incidence of the longest tenure JVs in the sample is inversely proportional to the age of the JV, and this strategy is encouraging foreign investment in long term capital projects.

A review of market posture by JVs, whilst bearing in mind the previously discussed influences of culture, market access, regional strategy and competition, finds that the price positioning mode in the sample is at the 'top-end', which results in high levels of price sensitivity in the majority of cases, which tend to be the older JVs. The younger ones tend to concentrate on the 'bottom-end' and 'compliant' sectors of the market, where they appear to experience high levels of competition, especially on prices, perhaps because they are engaged in a more price competitive sector. However, competition drives pricing strategy in almost half of all cases, with all JVs experiencing *some* costs-driven influence on prices, such that price is said to be the dominant marketing mix variable.

Performance is highly correlated with the synergies created within the sample JVs. These synergies are evidenced by the almost three-quarters of performance (half of which is achieved at a 'high' level) which coincides with *both* partners' inputs, as compared to the small amount of high level performance when there was no local partner contribution of market access. The resulting synergistic effect of foreign partner management control when coupled with local partner's business experience has been shown to produce a beneficial effect in a large majority of cases, whereas, an unequal balance of contributions coincides with just one case, and only two cases coincide with one partner inputs. The greatest synergies occur in areas where JVs have the greatest need of partner inputs, therefore, high levels of synergy in JVs promote continuity and security of tenure for contributing partners by placing a high value on partner inputs, which in turn coincide with high levels of performance.

2. The Main Implications for Foreign JV Partners in China.

The main implications for foreign partners identified in this research are :-

a) There frequently exists a potential for establishment costs to be elevated and / or equity proportions reduced for foreign partners owing to the difference in the nature of contributions, i.e. tangible and intangible, of the partners. Foreign partners who provide more intangibles i.e. 'negotiable' inputs, tend to offset the intangible valuation demands of the local partners, although this can also become another inflationary force in the negotiation. If foreign partners continue to negotiate on the basis of tangibles for intangibles they will risk either acquiring less equity for their investment or having to invest more, especially if they seek to acquire management control by way of equity majority. Therefore, foreign partners should maximise on the intangible components of their investment or structure their investments as being negotiable.

b) Elevated equity values result in reduced ROA/ROI values which reflect in the *quality* of the investment within the foreign partner's business and often result in increased target / control / performance demands by the authorities in China. Therefore, this situation leads to a risk of a JV under-performing in the eyes of the authorities by failing to meet shifting targets, and also under-performing in terms of the expectations of the foreign partner. Foreign partners should negotiate an equity value at an optimal cost at which they can acquire their required proportion and level of control, which also meets the expectations of the authorities and is comparable to similar arrangements in other locations.

c) Management control does afford prima-facie dominance over the local partner, although not unfettered self-determination, owing to the continued involvement of the authorities, who are very often related to the local partner. It follows, therefore, that where additional equity is purchased to acquire management control, it may not be self-determination which accrues to the foreign partner, but rather a measure of self-protection by eliminating the likely inferior management of the local partner. Therefore, foreign partners should remain essential to the operation of their JV by retaining control of essential components.

d) The containment of critical inputs, as a corollary to (c) above, offers a measure of protection by enabling the foreign partner to remain essential to the business. However, this strategy does not entirely protect the foreign partners' proprietary property owing to the uncertainty in the Chinese legislation on the issue of common property, i.e. products, brands, designs, and technology, in the event of premature termination or even full-term survival of the JV. Therefore, foreign partners should both patent and trade mark register their inputs to establish ownership and also structure use of them within the contract such that the use of such inputs is tied to a *'fee for term'* licence agreement.

e) The importance of partner selection to acquire effective regional operations is proportional to the extent of market access sought, the appropriate extent of which should be addressed early in the life of a JV, as the expansion of the market accessed is not geographically progressive, in that it can take equally as long to expand into each successive region. Failure to address the long-term appropriate extent of the target market early can itself be a limitation to market access. Therefore, foreign partners should enter China on the basis of a detailed market study to determine the size and distribution of the target market, which in turn will indicate whether a large central-unit or a multiple-unit strategy is appropriate.

f) The exploitation of the local market at the expense of meeting export targets is a common failure of establishment approval and interim controls. The implication of this is that the risk resulting from failure to meet export targets is potentially greater than whatever benefit is being harvested in the local market. Foreign partners should consider the penalties resulting from failure to meet targets which the authorities can exact on JVs, including the imposition of 'supervision' which effectively removes the acquired level of self-determination which enabled the foreign partner to concentrate on the local market.

g) Failure to meet any target or control, further to (f) above, amounts to failure overall and can result in a JV being refused permission to expand, borrow money, repatriate funds, or access new areas. Such JVs can be taken under 'supervision' and their brands, products and technologies being adjudged to be common property. Foreign partners should consider the achievable level of targets very carefully at the negotiation stage of a JV.

h) The importance of advertising, which has been used at low levels and mainly as an introductory vehicle but is increasing in line with increasing competition and the development of the regions. Failure to recognise the changing promotional needs of the various regions can result in lost opportunities. Foreign partners should undertake introductory advertising initially, which should be varied to address regional circumstances in the growth and mature phases of the JV.

i) A failure to recognise the frugal and ascetic cultural characteristic of the Chinese consumer, an insensitivity to prices and price positioning, the concept of value, and promotional messages and sales tactics, all of which are significantly correlated to performance, will likely result in JV failure. Therefore, foreign partners should consider cultural issues when formulating their tactical posture to the market.

j) A recognition of 'Guanxi', and particularly with regard to proximity to the consumer, sales force marketing and regional representation, is highly correlated with performance. Therefore, foreign partners should consider cultural issues when formulating their strategic posture to the market.

k) Management control and proprietary information containment strategies only delay assimilation by the local partner. It is clear that preformulated inputs and essential component strategies afford greater protection. Therefore, foreign partners can remain essential to their JVs by retaining a supply link of essential inputs.

l) The incidence of conflict within a JV in China is proportional to the assimilated independent level of competence in the local partner. Therefore, conflict increases with development towards maturity, or when uncontained access to knowledge is available, because the dissemination / assimilation of knowledge destabilises the shared arrangement implicit in the JV by removing the interdependence of the partners. It follows that conflict in areas which go to the root cause of JVs such as basic technology and intricate proprietary know-how, are precursors of further conflict and a predictor of terminal failure. The implication is that conflict in areas which do not empower the partners are not usually terminal, particularly if there is an interdependence between the partners. Conversely, conflict in any area can be terminal if either of the partners has achieved an independent level of competence from the other. Therefore, foreign partners should identify and contain proprietary knowledge or control in areas which could empower local partners to an independent level of competence.

m) Performance and efficiency are correlated with JVs which operate at an optimal size in relation to the extent of the market accessed and those which operate regional strategies. It follows that partner selection in acquiring access to markets i.e. distribution channels and the ability to operate regionally, dictates optimal JV size and, therefore, ultimately, efficiency and performance. Therefore, foreign partners should take a balanced view between the above implications in (b) the optimal size ROA/ROI relationship and (e) the strategy and extent of market accessed to achieve the efficiencies which are related to performance.

n) Performance is correlated with partner synergies in the areas of sales strategy, targets, recognition of the price / cultural / sensitivity balance, and the interdependence of the partners. A reduction in synergies in these areas results in a commensurable reduction in performance and efficiency. Therefore, foreign partners should address the issue of JV design along the lines of maximum participation to ensure maximum synergistic contributions, whilst retaining essential components to ensure continuing dependence on the part of the local partner.

3. The Main Implications for Local Partners and the Authorities in China.

The main implications for local partners and the authorities identified in this research are :-

a) Elevated establishment costs reduce the investment scope of foreign partners, which can impact on the modernity, product range, competence, and competitiveness of JVs. This widely reported feature of the establishment of JVs, and the resulting ROA/ROI performance, is a disadvantage to the authorities' strategy of attracting further state-of-the-art investment by liberalising the market and offering various incentives. Both local partners and the authorities would better serve their ultimate motives by focusing on the intended performance of JVs rather than on the establishment value of businesses i.e. the amount of fdi.

b) The lack of actual self-determination experienced by management controlling foreign JV partners, owing to the continued involvement of the authorities, is a major reason given for the recent preference for WFOEs over EJVs. This trend creates competitors to the regenerating SOEs rather than partners and does not promote the development of Chinese participated enterprises. Modification of the control and approval system within the authorities may remove this disincentive to joint venturing.

c) The uncertainty related to proprietary property in terms of residual assets of JVs requires clarification in further legislation if complete and genuine technology transfer of latest generation products and technologies is to be accomplished. This is a further disincentive to the formation of JVs in China owing to the 'prisoner to fortune' fear of many foreign companies, which also indicates to them that WFOEs may be safer owing to the total containment of assets. The authorities could rekindle interest in JVs in China if they were to simplify the control and approval system, and provide a measure of genuine protection in legislation for foreign partner proprietary investments.

d) Export targets should either be enforced or preferably abandoned altogether now that the system related to foreign exchange earnings has been changed from being export-dependent to one based upon current account balances. The continuation of export targets is actually having the opposite effect (as in at least one case in this research), whereby 'round-tripping' to meet targets (i.e. temporary export and re-importation) is a normal part of the business, the practice of which increases costs and prices, and also has the effect of marginalising the local partner by externalising the business beyond the production function.

e) The controls and targets systems, which frequently require JVs to operate beyond levels of solvency, affect both the partners because JVs can be found to be failing despite being in profit. This situation also affects the authorities in acting as a disincentive to JVs and an indicator to the establishment of WFOEs. Therefore, if the authorities wish to continue to attract fdi to China, they should simplify the JV entry route and apply the familiar yardstick of profit as an indicator of achievement, rather than the arbitrary measures imposed by changing targets, which system is unfamiliar and implies risk to most foreign partners.

4. Areas for Future Research.

The majority of published research into JVs in China has been based upon government or long-term statistics, or on a sectorally intensive or small scale empirical base. Researchers have analysed and manipulated the same data in different ways to support their research. Further, it is widely reported that many government statistics originating in China are self-serving and, therefore, unreliable and incomplete in not reflecting many developments which affect fdi.

This research has identified the following issues as being under-represented in studies into JVs in China. It is proposed that these important issues should be the focus of future in-depth research :-

a) Industrial Indicators

The availability, sufficiency and control of raw materials and the production of intermediate products has not received the attention that such a critical component of an investment decision deserves. Instead, the focus of researchers has been in areas in which data has been made available as part of the encouragement of investors. The energy sector, which has received some research attention, has also been represented by analyses of statistics which were said to be prospective and overstated, and even these values have since been overcome by growth in demand. Similarly, the actual modernity of technology transferred to JVs in China has been overstated and frequently overtaken by new developments, e.g. cars and televisions.

b) JV Failure

JV failure has been 'institutionalised' such that EJVs do not fail in the conventional sense. The demise of a foreign participated EJV is preceded by a period of failure to achieve or cooperate, a period of target adjustments, restructuring, and eventual supervision. If the enterprise still fails to perform, then it can be taken over by the authorities. So JVs in China may be failing from time to time, but the frequency of their termination goes unreported. This risk is a major component of the establishment decision process, and should be researched externally to indicate more than just that JV failure in China is as prevalent as it is elsewhere.

c) Distribution Channels

The fact that many foreign participated JVs have had to invest substantially in the development of routes to the market indicates the low level of development in domestic distribution channels. The reason for the slow rate of development has been that whilst the production sector was opened up to foreign investment and modernisation, the distribution system has only relatively recently been liberalised. The current developments are that the old state supply system infrastructure is being modernised, but this is happening very slowly and parallel systems are necessarily being created by both IJVs and WFOEs. This critical area to the efficiency of JVs, which often has the effect of forcing JVs to less than optimum establishment size, and also into by-province establishment strategies, has received very little attention from researchers.

d) Labour and Agriculture

The industrial development of China since the 'open door' policy of 1979 has caused a reported one-third of the rural population to leave agriculture and seek employment in industry, mainly in urban areas. This has had an effect on the availability and cost of labour and also on food production, and created opportunities for foreign participated enterprises. However, these important areas are under-researched and require a multi-disciplined approach to research the sufficiency, import and processing industry implications, the resulting economic burden, the change in social patterns, the regulations placed by the authorities upon foreign investors in the exploitation of the labour force and foreign participation in subsistence industries.

e) Provincial Protectionism

It has been shown in this research that provincial protectionism exists. However, aside from the data derived from the case studies and a few research papers which have given the issue secondary importance, very little detailed specific research work appears to have been done. Yet protectionism influences the strategy of many joint venturers who seek to enter this large market. Research in this area should seek to identify the prevalence of provincial protectionism, and evaluate the effectiveness of multi-location strategies and the effect on JV size.

f) Authority Targets and Controls

The ability of the authorities to influence JVs by way of arbitrary targets and controls exists, although their incidence goes largely unreported. Research is required to investigate three keys issues: whether such methods are used unreasonably to force JVs to increase performance or reduce foreign partner incomes, whether greater pressure is placed upon JVs in these ways to increase performance in a declining rate of economic growth, and whether these methods are used to induce termination once an independent level of knowledge has been assimilated.

g) Promotion

Aside from a few articles in the subject literature which identify the level of promotional activity in China as being at low levels, and the findings of this research which confirms these findings and further identifies advertising and promotion as being mainly introductory and regionally intensive, this critical component of marketing in China remains largely unaddressed. There is a need for research to identify such influences as the effects of cultural difference, regional disparity, promotional strategies, promotional maturity, effectiveness, methods, and costs. Such research would be a logical continuation of this Thesis and provide important strategic direction to many prospective JV partners.

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