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Foreign Parent Control and International Joint Venture Performance

Evidence from Finnish Multinational Firms

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Tiivistelmä <p>Tutkimuksen päätavoite on kehittää laaja ja kattava viitekehys yhteisyrityksiä koskevan kontrollin ymmärtämiseen. Erityisesti työssä pyritään täyttämään aiempien tutkimusten jättämät aukot koskien seuraavia kysymystä: 1) Miten ulkomaalaisomistajat harjoittavat kontrolliaan yhteisyrityksissä saavuttaakseen ylivertaisen menestyksen? 2) Miksi ja miten yhteisyrityksiin kohdistuvat kontrollirakenteet muuttuvat ajan mittaan?</p> <p>Väitöskirja koostuu viidestä artikkelista sekä artikkelit integroivasta luvusta. Ensimmäisessä artikkelissa kehitetään tärkeä linkki osoittamaan ulkomaalaisomistajan strategioiden, kontrollin ja menestyksen välistä suhdetta yhteisyrityksissä. Toisessa artikkelissa kehitetään kansainvälisiin yhteisyrityksiin kohdistuvaa kontrollia koskeva malli, joka liittyy yhteisyrityksen isäntämaan olosuhteiden epävarmuuteen. Kolmannessa artikkelissa pyritään tutkimaan miten partnereiden väliset eroavaisuudet vaikuttavat yhteisyrityskontrolliin sekä yhteisyrityksen menestykseen. Neljännessä artikkelissa kehitetään malli, joka käsittelee yhteisyrityskontrollin dynamiikkaa ja sen yhteyttä yhteisyrityksen menestykseen yhteisyrityksen elinkaaren eri vaiheissa. Viidennessä artikkelissa tutkitaan emoyhtiön kontribuutioihin ja aiemman yhteisyrityskokemuksen vaikutusta yhteisyrityskontrolliin ja menestykseen. Työn teoreettinen perusta muodostuu transaktiokustannusteorian, resurssi-riippuvaisuusteorian sekä organisationaalisen oppimisen näkökulman integraationa. Empiirinen aineisto perustuu suomalaisyritysten 1990-luvulla suorittamiin ulkomailta sijaitseviin yhteisyritysinvestointeihin kohdistuneeseen kyselyyn.</p> <p>Työ tuo lisäarvoa kansainvälisten yhteisyritysten teoriaan luomalla yhteisyrityskontrollia koskevia malleja. Nämä mallit auttavat selittämään aiempien tutkimusten ristiriitaisia tuloksia koskien yhteisyrityskontrollin ja menestyksen välistä suhdetta. Yhteisyritysten ulkomaalaisten emoyhtiöiden johtajille työ esittää mahdollisia kontrollirakenteita, mitkä saattavat toisaalta auttaa yrityksiä käsittämään yhteisyritysstrategioitaan, ja toisaalta taas suojelemaan ydinosaamistaan ja teknologista tieto-taitoaan sekä tukemaan toimimista korkean epävarmuuden alla ulkomaisilla markkinoilla. Lisäksi tutkimus tarjoaa hyötyä johtajille osoittamalla tarvittavia muutoksia yhteisyritysten kontrollirakenteissa ylivertaisen suoritus-tason saavuttamiseksi.</p>		
Asiasanat Ulkomainen emoyhtiö, kansainvälinen yhteisyritys, kontrolli, menestys, strategia, yhteisyrityksen elinkaari		

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<p>Abstract</p> <p>The main goal of the dissertation is to develop a comprehensive framework for understanding control of international joint ventures (IJVs). The dissertation fills research gaps from previous studies by seeking answers to the questions: 1) <i>How do foreign parent firms exercise control over their IJVs to achieve superior IJV performance?</i> 2) <i>Why and how do IJV control structures change over time?</i></p> <p>The dissertation consists of the integrative chapter and five articles. In the first article an important linkage is developed which enunciates the connection between foreign parent strategies, their control and the performance of IJVs. The second article develops a model of the international joint venture control which deals with the uncertainty of the host country. The third article aims to investigate the influence of partners' differences on IJV control and performance. The fourth article develops a model of IJV control dynamics in relation to IJV performance during IJV life cycle. The fifth article investigates the influence of parent contributions and prior IJV experiences on IJV control and performance. As theoretical foundations, transaction cost theory, resources dependency theory, and organizational learning perspective are integrated. The empirical evidence is based on the survey of Finnish firms that have established IJVs with local firms from 1990s.</p> <p>The dissertation contributes to IJV theory by providing IJV control models. These models help to explain the conflicting results from previous studies about the relationship between IJV control and performance. For the managers from the foreign parent firms, the dissertation points out the possible IJV control structures that can help foreign firms to realize their strategies in their IJVs on the one hand, and to protect their core competence, technology know-how, and help to cope with high uncertainty of foreign markets on the other hand. The dissertation also benefits to managers by pointing out necessary changes in control structure of IJVs to achieve superior performance.</p>		
<p>Keywords foreign parent, international joint ventures, control, performance, strategy, joint venture life cycle</p>		

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1 INTRODUCTION

This first chapter aims to provide an overview of the dissertation. First, the background to the study is introduced, and then its need is justified by pointing out gaps in the literature and previous studies. Based on the gaps, and to extend previous studies, research questions are constructed. Next, the present dissertation positions itself in relation to previous studies and thus points out its potential contributions to the field in both theoretical and managerial aspects. The chapter also defines some important concepts of the present dissertation, before introducing its wider structure.

1.1 Background and research gap

As international business activities continue to grow, multinational firms around the world are establishing partnerships with firms from other nations (Vaidya, 2000). International joint ventures (IJVs) have become a major strategic tool of firms entering international markets (Dunning, 1995). In the present dissertation, an IJV is regarded as a separate entity located in a foreign market formed by one (or more) MNC (s) and one (or more) local firm (s) whether through greenfields development or partial acquisitions. The literature of international business shows that one of the biggest challenges that the parent firms face when entering international joint ventures is the control issue over the venture's activities (Anderson & Gatignon, 1986; Geringer & Hebert, 1991). This is because through participating in voluntary cooperative relationships in the IJVs, the foreign parent firms are exposed to the risk of opportunism (Zhang & Li, 2001). In addition, the operating environments in foreign markets sometimes are sometimes characterized by high levels of uncertainties because of weak legal systems, unstable political regimes.

All of these make the issue of control of IJVs crucial. In this dissertation, IJV control is seen as the influence of foreign parent firms on IJV operations. Through exercising control successfully, the foreign parent firms make sure that their strategies are effectively implemented and their resources are efficiently utilized (Lorange, Morton & Ghoshal, 1986). Lacking of proper control may result in lost of knowledge and capabilities to outsiders (Reich & Mankin, 1986; Geringer & Hebert, 1989). Besides, the parent firms need to focus more on control over the IJV's activities than they do with their wholly owned one (Anderson & Gatignon, 1986; Geringer & Hebert, 1991) since IJVs involve with other firms from the host countries. Researchers have pointed out that the failure rates of IJVs are quite high (Geringer & Hebert, 1991; Hennart, Kim & Zeng, 1998; Yaheskel, New-

burry & Zeira, 2004). Some authors have suggested that control problems are one of the primary causes of IJV failure (i.e. Groot & Merchant, 2000).

Despite the popularity and importance of IJVs and extensive research in the field, it is suggested that we have a limited understanding of how to manage them (Das & Teng 2001). Berry et al. (2008) maintain that management control continues to be a fertile field for research and suggest that much more research is needed to yield insights into how organizations can develop effective control systems. This is due to the fact that most previous studies contribute little knowledge of how to control IJVs, or about the relationship between parent firm control and IJV performance (Geringer & Hebert, 1989). More than fifteen years ago, Shortell and Zajac (1988) suggested the need to study how to manage IJVs during their development process and their relationship to IJV performance. Furthermore, Geringer and Hebert (1989) propose that future research should deepen IJV control in terms of mechanisms, control extent, and control focus. Later on, Ramaswamy, Gomes, and Veliyath (1998) also suggest the necessity to examine a wider array of control of IJV through in-dept investigations. Furthermore, previous research suggested that future research on IJV should focus on foreign parent firms' adaptation of their strategies in response to the IJV's operating environment (Niemi-nen, 2003). Pangarkar and Klein (2004) suggest future research should explore the impact of parent firm's characteristics such as prior multinational experience or experience in the host country of control and monitoring performance of IJVs. Berry et al. (2008) suggest that future research is necessary to investigate the consequence of management control on performance. In the same vein, Chalos and O'Connor (2004) maintain that further research should explore the relation of controls to IJV instability and performance. Similarly, Barden, Steensma, and Lyles (2005: 170) suggest that researchers who search for a relationship between control structure and IJV outcome should reflect the complexity of the organizational structures, strategies, and environments. Männik (2006), who studies about the impact of the autonomy on performance in a multinational corporation's subsidiaries in transition countries, finds that the degree of control by parent firms is environment and firm dependent. Herath (2007) suggests that management control of an organization should be linked to its structure, strategy, culture, and information systems to achieve its objectives. Fang and Zou (2009) suggest future study should investigate on mechanism by parent firms that allow dynamic capabilities to take place in IJVs.

Concerning IJV structure stability, Franko (1971) concluded that policy changes in Multinational Enterprises were one of the reason leading to IJV instability, Moreover, Yan and Zeng (1999) and Zhang and Li (2001) argue that changes in government policies and the competitive environment lead to the evolution of the

control design. In addition, Kogut (2002) maintains that no matter what the initial agreement on control may have been at the start of a venture, environmental and strategic changes over time may lead to reconfiguration of the control design. This is because these environmental factors and strategic behaviors are crucial for an IJV's stability (Harrigan, 1985). With respect to the dynamic in IJVs, Dymysza (2002), who discussed successes and failures of IJVs, maintains that local parent control generally expands over time as local parent firms gain technical, production, marketing, financial, organizational, and other competencies. Furthermore, Chen (2004) proposes that future research should investigate the evolution of IJV governance along with IJV lifecycle. In particular, Brouthers and Bamossy (2006) suggest that further research should concentrate on IJV performance and other related processes such as control and the IJV development process. Similarly, Berry et al. (2008), who review the recent literature on management control and its effects on performance, suggest that there is very limited use of static analysis of the dynamic nature of control systems design. As a result, it seems that an IJV control structure is not stable over time due to changes of influential factors. Therefore, there is a need to investigate how and why the control structure exercised by parent firms over their IJVs change.

1.2 Research objectives and research questions

The basic objective of the present dissertation is to build up a framework for controlling IJVs operating in local markets from the viewpoint of foreign parent firms. First, the present study aims to analyze the influence of determinant factors on IJV control structure. The determinant factors include foreign parent firms' internal factors such as their characteristics and strategies, and IJV operating environment factors such as the target country's degree of uncertainties. The second objective of the dissertation is to find out the relationship between selected foreign parent control structure and IJV performance. In addition, the dissertation aims to investigate whether the relationship between parent control structure and IJV performance change over time. The final objective of the dissertation is to identify the main cause of any such change. To be able to realize these objectives, the present dissertation aims to answer the research question: **“How do foreign parent firms control their IJVs in foreign markets to achieve superior IJV performance?”** The research question is further divided into the following sub-questions, each of which will be answered in an individual article:

- (1) How do foreign parent firms configure the control structure in their IJVs to implement their strategies? (Article 1)

(2) How do foreign parent firms design their control in order to cope with the host country uncertainty? (Article 2)

(3) How do partners' perceptions of differences in management styles, joint venturing objectives, and business relatedness affect the control they exercise in IJVs? (Article 3)

(4) What are the influences of foreign parent firms' contributions and IJV experiences on IJV control and performance? (Article 5)

(5) What are the relationships between foreign parent control and IJV performance during the formation stage of the IJV lifecycle? How do these relationships change during the post-formation stage of the IJV lifecycle? (Article 4)

By answering these questions, the present dissertation aims to provide a fuller understanding of IJV control through elaborating the link between *foreign parent characteristics, operating environments, strategies and IJV control*. More specifically, the study investigates how foreign parent firms determine the control to use with IJVs based on their characteristics, which include their IJV experiences, their critical resources, and the strategies implemented in IJVs.

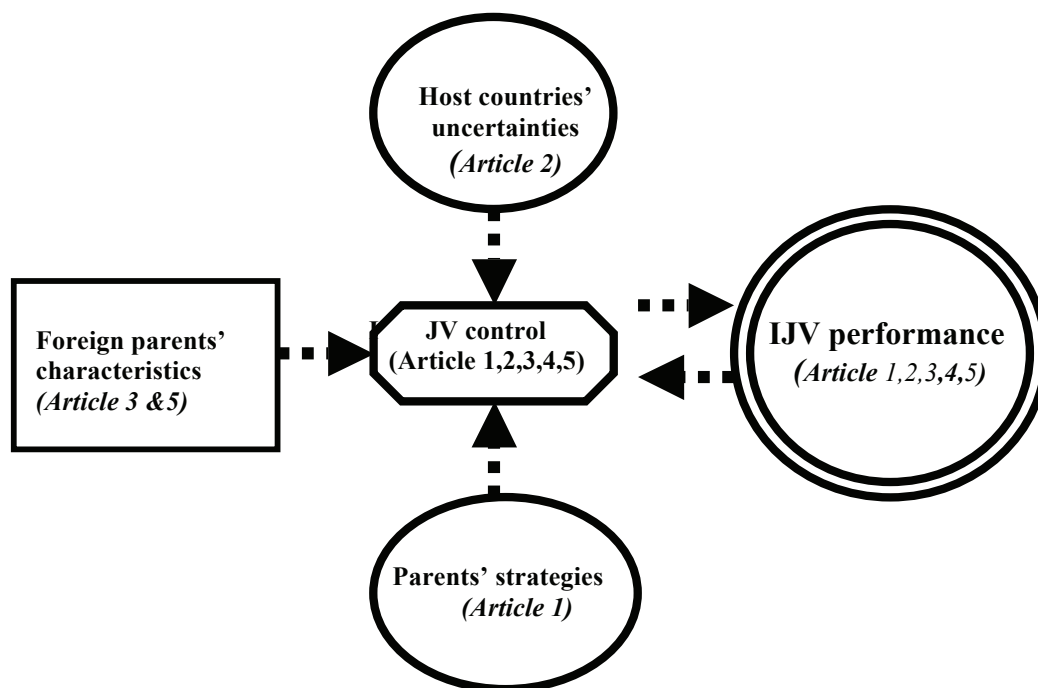


Figure 1. The *a priori* theoretical framework

Table 1. Key concepts in the present dissertation

Concepts	Definitions used in the present study
Foreign parent firms	Finnish firms having joint venture(s) with local firms.
Local parent firms	Firms from foreign markets that have joint ventures with Finnish firms
International joint venture (IJV)	A separate entity formed by foreign parent firms and local parent firms whether through greenfields or partial acquisition.
IJV lifecycle stages	The two different stages in an IJV's life: a formation stage and a post formation stage
IJV Control	The influence of foreign parent firms on international joint venture operations through control mechanisms, control focus, and control extent.
Control mechanisms	Structural arrangement designed to determine and influence what organization members do through a variety of mechanisms both formal and informal.
Social control	Mechanisms which are based on behavior control such as training, personal relationships, and informal communications, etc.
Formal control	Mechanisms which are based on activity control such as ownership, contracts, key personnel appointments, right of veto, etc.
Control focus	The areas wheret foreign parents choose to concentrate their control in their IJVs including broad control and narrow control.
Broad control	Area of control which foreign parent firms exercise over their IJVs on more than three different areas.
Narrow control	Area of control which foreign parent firms exercise over their IJVs in three different areas or less.
Control extent	The tightness of foreign parent control exercised in their IJVs. It includes tight control and loose control.
Tight control	Control is tight if parent firms exercise more than three control mechanisms and broad control over IJVs.
Loose control	Control is loose if parent firms exercise three control mechanisms or fewer and narrow control over their IJVs.
Parent firm's strategies	Strategies that parent firms implement in their IJVs. They include strategic motives, strategic importance, strategic focus, and competitive strategy.
Host country uncertainty	Complexity and volatility of environmental factors including cultural uncertainty, environmental uncertainty, competitive uncertainty
Parent characteristics	Parent characteristics can be seen through their management style, business line, their contribution to IJVs, and their prior IJV experience
IJV performance	Level of goal achievement, measured by foreign parent satisfaction on both overall and financial performance of IJVs.

In addition, the present dissertation investigates the link between host country uncertainty including cultural uncertainty, environmental uncertainty, and com-

petitive uncertainty and IJV control. The final sub-question is on the further investigation of IJV control in respect to performance. In more detail, the present dissertation tries to find out what the relationships are between initial control in terms of focus, mechanisms, and extent and IJV performance are in the formation stage of IJVs, and whether there are changes in IJV control structure during IJV development. The study also closely examines the influence of IJV performance during the initial stage on the reconfiguration of the IJV control structure in a latter stage. The research problems are summarized in a theoretical frame work in **Figure 1**.

1.3 Positioning and contribution of the dissertation

Most previous research on international joint ventures has focused on partners' motives, partner selection, parental conflict, and performance measurement (Parkhe, 1993). In early IJV studies of IJV formation, partner selection, and negotiation, researchers have focused on resources exchange and the value of the resources utilized in IJVs (Duan & Chuanmin, 2007). Later, other researchers have focused on the interactive nature of cooperation between the venture's partners (Parkhe, 1991, Saxon, 1997). Although IJVs are important to parent firms, IJV formation and its consequent performance is still an ambiguous issue. Researchers point out that IJVs often suffer a high failure rate and a high level of parent dissatisfaction (Kogut, 1989; Park & Russo, 1996; Chen, 2004).

In looking for the answers to the questions about IJV performance, researchers have investigated ownership, national context, strategy divergence, prior relationship, and trust between partners (e.g. Parkhe, 1991; Park & Russo, 1996; Hennart, Kim, & Zeng, 1998, Li, 2003, Dhanaraj & Beamish, 2004). These researchers maintain that conditional factors make the operation of IJVs difficult and thus affect IJV performance. These authors also suggest the importance of having suitable partners and favorable conditions in which to establish IJVs to achieve superior IJV performance. However, these authors have ignored the role of control of IJV operations which directly affects to IJV performance (Parkhe, 1996; Guidice, 2001), as Baughn, Denekamp, Stevens, and Osborn (1997) argue that control is necessary to protect intellectual capital. This is also because IJVs operating in similar condition may not perform similarly, because they are managed differently. In addition, managing continuous interaction between parent firms and the joint venture becomes crucial to IJV performance (Chen, 2004).

In spite of its important role in IJVs, there are a very limited number of studies focusing on control in existing joint venture literature. In IJV studies, Taco and

William (2004) review ten major journals for a period of 15 years between 1988 and 2003, and identified 388 IJV studies. Among these, there were a few studies researching control (15/388), while most IJV studies focused on the entry mode strategy (57/388), the partner learning (39/388), and the partner selection (28/388). As a result, not much is known about IJV control, thus, it is necessary to further investigate parent control and its effect on IJV performance. The early research of IJV control focused on the relationship between the international strategy of the MNCs, the strategy of local partners, and the need for IJV control (i.e. West, 1959; Tomlinson, 1970; Franko, 1971; Behrman, 1977; Rafii, 1978). IJV control research was, then, continued through the works of Killing (1983), Schaan (1983), Beamish (1984), Mjoen (1993); Makino (1995), Lee & Beamish, 1995; Calantone & Zhao, 2001; Yan & Gray (2001a) (see **Table 2.**). Previous studies have addressed the importance of control mechanisms for IJV performance (e.g. Beamish, 1988; Sohn, 1994). In addition, they traditionally have been modeled by relative degree of ownership only (Mjoen & Tallman, 1997). In addition, if control of IJVs is discussed alongside the ownership structure, most previous research has focused on only one dimension; mostly control mechanisms (e.g. Mjoen, 1993; Vryza 1997; Yan & Gray, 2001a; Xiansheng, 1998, Chang, Mellahi & Wilkinson, 2009). Moreover, most previous studies of the relationship between control and performance are based on only one stage of the IJV lifecycle (i.e. the formation stage or the post formation stage).

As a result, the findings on the impact of control on performance have been conflicting and inconclusive (Chalos & O'Connor, 1998; Lecraw, 1984; Yan & Gray, 2001b; Geringer & Hebert, 1989; and Groot & Merchant, 2000; Calantone & Zhao, 2001). Researchers have addressed different aspects of the relationship between control and performance: a positive relationship between foreign parent dominant control and IJV performance (Killing 1983; Lee & Beamish 1995; Ding 1997; Luo, Shenkar & Nyaw, 2001); no relationship between foreign parent control and IJV performance (Kogut, 1988; Calantone & Zhao, 2001); a negative relationship between foreign parent control and IJV performance (Osland, 1994; Isobe et al., 2000, Boateng & Glaister, 2002; Child, Faulkner & Tallman, 2005); share control between foreign and local parent as positively related to IJV performance (Beamish, 1985, 1993); and split control between foreign parent firms and local parent firms as leading to better IJV performance than shared and dominant control variants (Beamish & Choi, 2004).

Contributions of the present dissertation

Figure 2 shows quite clearly one of the main contributions of the dissertation. By establishing the link between factors, control structure and performance, the dissertation gives a better view of the control issue and the overall outcomes of joint venture performance.

However, to be able to address the control issues associated with the IJV thoroughly, Geringer and Hebert (1989) and Ramaswamy et al. (1998) propose that future research should examine a diverse array of control structures and their relation to performance, across three dimensions: focus, mechanisms, and extent. Lu and Hebert (2005) also suggest that further study should focus on control mechanisms other than ownership or equity control. In the same vein, Guidice (2001) states that a firm does not need majority equity ownership to exercise managerial control.

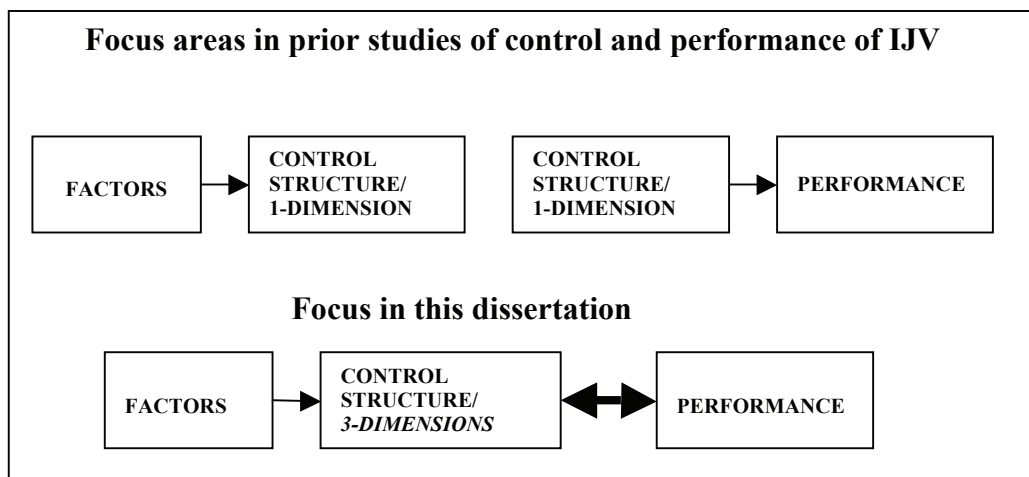


Figure 2. Focus of the present dissertation compared to prior studies

Das and Teng (1998) propose that to understand the relationship between IJV control and performance, future research needs to identify relevant contingency variables and allow for more complex types of effects. By investigating *factors* affecting the IJV control structure across the **three dimensions of control**, and by pointing out possible the structures potentially *leading to better performance*, the

present study, thus, contributes to a more comprehensive knowledge of IJV control theory.

Table 2. Previous studies on control and performance of IJVs¹

Authors	Number of IJVs	Location of JVs	JV Control Perspective	Analysis Method
Tomlinson (1970)	71 IJVs	Less developed countries	Ownership, effective control, focus & extent of control	Regression
Franko (1971)	159 JVs	Cross countries	Parent standardization, centralization & strategy	Correlation
Killing (1983)	37JVs	Developing countries	Board, staffing, reward systems	Two-group t-test
Schaan (1983)	10 IJVs	Developing countries	Board, staffing, decision making, contracts, socialization	Case analysis
Beamish (1984)	66 IJVs	Cross countries	Ownership, board, staffing, reward structure	Correlation
Lecraw (1984)	153 JVs	Less developed countries	Ownership, extent & focus of control, overall effective of control	Correlation
Mjoen (1993)	49 IJVs	Cross countries	Ownership, specific activities, and overall control	LISREL
Makino (1995)	1,688 IJVs	Cross countries	Ownership	Regression, Case- analysis
Ding (1997)	34 IJVs	Less develop countries	Capital expenditure, product planning, pricing, export, import, wage and labor policy	Regression
Vryza (1997)	140 IJVs	Developed countries	Formal, informal, and ownership control	Regression
Glaister & Buckley (1998b)	51 UK IJVs	Developed countries	Control mechanisms, extent, focus	Regression
Xiansheng (1998)	1687 IJVs	Less developed countries	Board membership, key personnel, and ownership	Regression, Case analysis
Ramaswamy, at al. (1998)	83 JVs	Less developed countries	Ownership control	Regression
Wang, Wee, Koh (1998)	148 IJVs	Less developed countries	Share, right to appoint personnel to key positions, board meetings, capital budgeting, and resource allocation, policies, procedures	Correlations
Choi (2001)	71 IJVs	New industrialized countries	Amount of control, activities of control	Correlation
Guidice (2001)	58 IJVs	Developed countries	Board of director, staffing, socialization, trust	Regression
Yan & Gray (2001a)	90 IJVs	Less developed countries	The number of directors from each side on IJV' board, decision power of key personnel	Regression
Zhang & Li (2001)	8 IJVs	Less developed countries	Formal and informal control	Case analysis
Fryxell, Dooley, Vryza (2002)	129 IJVs	Cross countries	Formal and informal control	Regression
Li (2003)	215 IJVs	Less developed countries	Ownership, influence on decision making	Regression
Lu, Hebert (2005)	720 IJVs	Less developed countries	Ownership	Correlation
Brouthers & Bamossy (2006)	8 IJVs	Less developed countries	Ownership, HRM policies, and key position appointment	Case analysis
Duan & Chuanmin (2007)	3 IJVs	Less developed countries	Ownership, control mechanisms	Case analysis

1 Criteria of choosing previous studies for this table base on: 1) IJV studies related to control and performance; 2) key studies by leading scholars in the field; 3) studies that cover different aspects related to IJV control and performance; 4) Studies that show continuous research stream of IJVs from very beginning up to now.

In addition, the present dissertation is the first to examine *the changes in IJV control* during the development of IJVs, especially under the influence of overall performance, since “how control design of IJVs evolves over time remains unclear” (Zhang & Li, 2001: 342). This is important because it examines the organizational process (Brouthers & Bamossy, 2006).

The research on process makes an important contribution because it explains how managers can influence firm performance through organizational control (Chakravarthy & Doz, 1992), and *vice versa*. The present dissertation argues that the high failure rates of IJVs in foreign markets are caused by incompatibility between foreign parent firm strategies and their IJV control structure. In addition, the author maintains that the inability of previous studies to agree about the relationship between parent control and the IJV performance rests on the existence of gaps in the IJV literature. One such gap is the missing link between the foreign parent strategies and their IJV control structures. This link is crucial for both theorists and practitioners since it identifies the appropriate control structure for foreign parent firms to be able to implement their intended strategies in IJVs, which allows IJVs to achieve the foreign parent’s goals. Therefore, establishing the link between the *parent firm’s strategies* (e.g. strategic motives, strategic importance, strategic focus, and competitive strategies) and *IJV control* is believed to be another important contribution of the this dissertation.

Finally, a fuller understanding of control issues and their relationship to performance will offer several advantages for practitioners. In fast changing environments in some countries, the need to protect and properly exploit competitive advantage seems to be of paramount importance. The present dissertation shows foreign parent firms how control activities fitting with their strategies will result in better performance. Moreover, it offers managers the possibility of having the tools to cope with target countries’ uncertainties which are known to be key obstacles for foreign firms to successfully operate in foreign markets. In other words, the present dissertation helps managers to decide which IJV activities to control, what degree of control to exercise, and what control mechanisms to employ. Furthermore, it helps managers to know how these control structures should be changed over time to, on the one hand, minimize the cost of control and, on the other hand, maximize the performance of IJVs.

1.4 Structure of the dissertation

The present dissertation is organized into two parts. The first part provides an overview of the dissertation. The first chapter introduces the background, research

objectives, and contributions of the dissertation. The second chapter elaborates on the previous literature related to IJV control and performance. The third chapter presents the empirical data. The fourth chapter summarizes the five articles. The fifth chapter includes conclusions, managerial and theoretical implications, limitations, and some avenues for future research.

The second part of the dissertation includes five articles. The first article discusses how parent firms can implement their strategies in their IJVs by exercising proper control over their IJVs. The second article examines how foreign parent control in their IJVs can help them to cope with uncertainty in the host country. The third article investigates the way in which foreign parent firms establish their control over their IJVs to deal with differences between partners in IJVs. The fourth article emphasizes the dynamic aspect of foreign parent control and its relation to IJV performance. The fifth article expands on the link between foreign parent firms' contribution to IJVs, their experience in IJVs and IJV control and performance (see **Figure 3** for structure of the present dissertation).

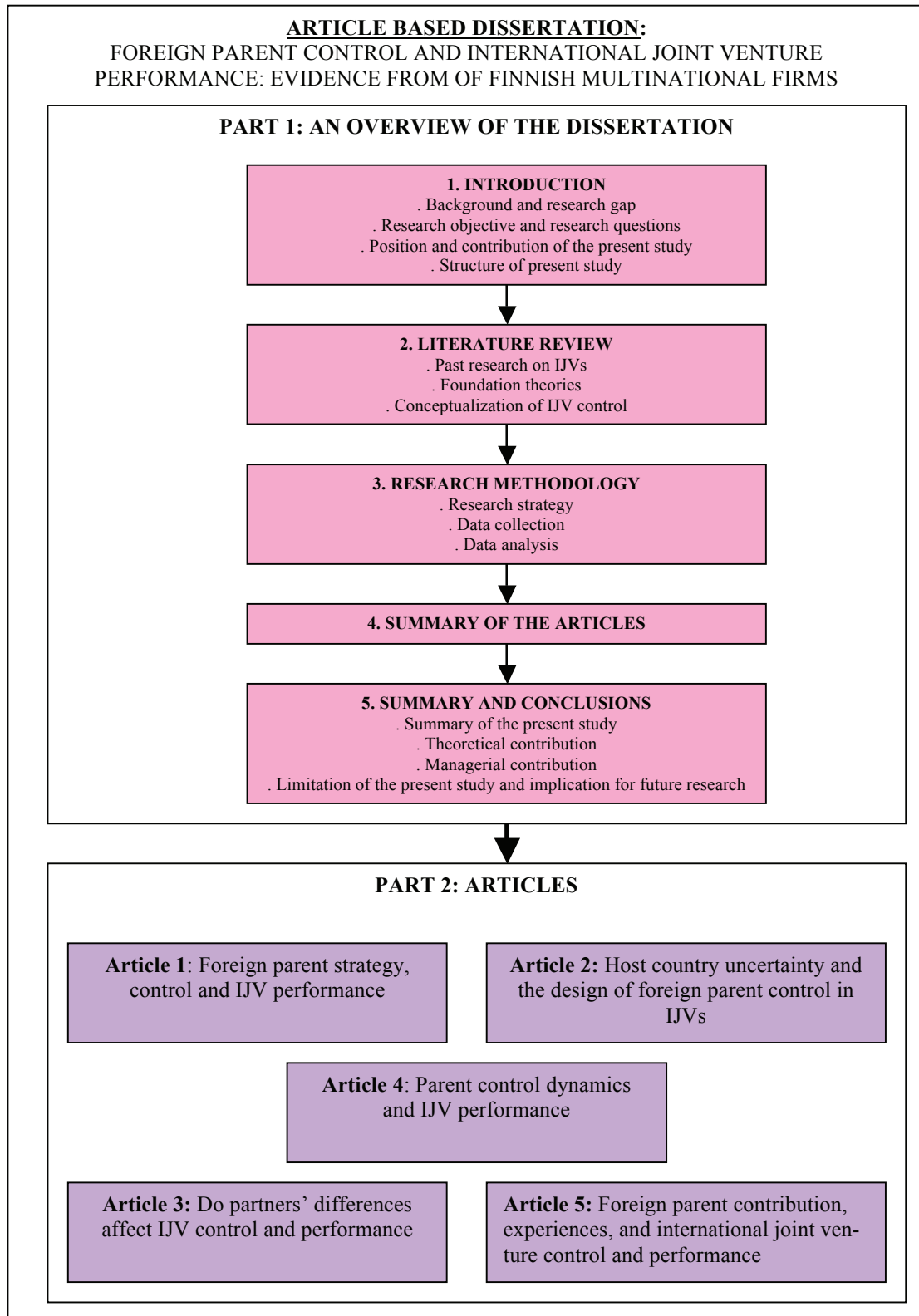


Figure 3. Structure of the present study

2 LITERATURE REVIEW

This chapter will begin by reviewing the relevant literature related to IJV studies forming the background to this dissertation. Then, the chapter discusses theories used in different articles of this dissertation as fundamental bases for the arguments. Then, the chapter expands on IJV control concepts and IJV control dimensions used in the five articles.

2.1 Past research on IJVs

Research on IJVs has been growing significantly in recent years. There are several important topics of discussion in IJV research. They are the motives for IJV formation, partner selection, trust and commitment, learning in IJVs, control (Parkhe, 1996; Taco & William, 2004), cultural issues, environmental issues in IJVs (Taco & William, 2004) (see **Figure 5** in section 2.1.9)

2.1.1 *Motives for IJV formation*

A number of previous studies have tried to answer the question of why partner firms enter into IJVs (Parkhe, 1996). Harrigan (1995) finds three main motives that encourage firms to enter into IJVs - internal benefits, competitive benefits, and strategic benefits. Steven and Garry (2005) discern three main motives for American firms to enter into IJVs with Chinese firms - knowledge acquisition, cost savings, and strategic positioning.

Contractor and Lorange (1988) specify seven different IJV formation motives including risk reduction, economies of scale, technology exchange, co-opting or blocking competition, overcoming government investment barriers, expansion to international markets, resources exchange. Kogut (1988) asserts that motives for IJV formation are to reduce the cost of production; to respond to external environmental pressures; to acquire knowledge and know how from partner firms. Glaister and Yu (1993) find that the main force motivating UK firms to form joint ventures is to gain faster entry to the Chinese market and access to largely intangible inputs that they would otherwise have difficulty acquiring. In addition, they find that direct access to physical inputs and financial incentives provided by central and local government play a relatively minor role in the motivation behind joint ventures in China.

Parkhe (1996) suggests that IJV motivation must be viewed in line with its location because it may vary in developed countries and developing countries. Taco

and William (2004) maintain that multinational companies are often motivated by local market access and local market knowledge. On the other hand, local partners enter to IJVs to acquire new skills and technologies (Taco & William, 2004). Al-Khalifa and Peterson (1999) propose that the motivation to enter into a joint venture must be distinguished from the motivation involved in partner selection. Zineldin and Dodourova (2005) demonstrate that strategic and managerial motivations for entering joint ventures are more important than financial and technological motivations. On the other hand, motives for entering IJVs can differ according to the size of the firms. Millington and Bayliss (1995) find that large firms engage in JVs in response to competitive pressures within an increasingly unified single market which small and medium-sized firms get involved in JVs in order to penetrate different foreign markets.

2.1.2 Partner selection

Another stream of IJV research relates to the selection of suitable IJV partners. This is an important aspect for IJV success, and as Arino et al. (1997) and Vaidya (2000) maintain one of the reasons for IJV failures is the selection of an incompatible partner, due to partners having a number of different goals. Differences in these goals can cause the venture to break up (Vaidya, 2000). Lane and Beamish (1990) argue that one of the most important factors in establishing an IJV is identifying and selecting partners. In addition, Geringer (1991) finds that when firms look for complementary partners, they need to determine the specific task-related complementary element that is the basis for the partnership. Geringer (1988) divides partner selection criteria into two dimensions namely task related and partner related. Beamish (1994) and Cullen et al. (1995) emphasize the aspect of trust in partner selection. In their recent study on the role of the host country legal environment on IJV partner selection, Roy and Oliver (2009) find that host country rule of law perceptions positively influence partner-related criteria.

Based on a survey of 42 international joint ventures in Bahrain, Al-Khalifa and Peterson (1999) suggest that partner-related factors are more important than task-related factors in selecting a partner. Glaister and Yu (1993) find that when selecting a Chinese partner, the most important characteristic is the partner's ability to negotiate with the host government. Larimo and Rumpunen (2006), based on a sample of 60 IJVs established by Finnish companies in various foreign countries during the 1990s, find that IJV location-specific and investment-specific variables had influenced the relative importance of the partner selection criteria used by the Finnish companies. They also suggest differences in the relative importance of the selection criteria between better and poorly performing

IJVs. In the same vein, Salavrakos and Stewart (2006), who assess the association between performance of IJVs and the partner selection criteria of Greek firms in Centre and Eastern Europe, find that careful selection of partners can secure the future prospects of their IJVs. From an analysis of 66 joint ventures in developing countries, Beamish (1994) finds that multinational executives in the high-performing ventures select their local partners enlisting greater contributions from general managers, functional managers, knowledge of current local business practices, and general knowledge of the economy. In contrast, multinational executives in low-performing ventures choose their local partners to be able to satisfy existing/expected government requirements for local ownership or to avoid political intervention (Beamish, 1994).

2.1.3 *Trust and commitment*

Discussing the major determinants of IJV success and failure, Chowdhury (1989) proposes that commitment and inter-partner trust play crucial roles. Commitment can be defined as an enduring design to maintain a value relationship (Moorman et al., 1993), a sign of willingness to provide, on a continual and long term basis, resources and capabilities for the specific needs of the IJV operation (Chodhury, 1989). Relational commitment between parents and their IJVs occurs because the relationship is important to their overall company performance, and thus warrants substantial maintenance efforts (Yehekel et al., 2004). Therefore, committed partners expect long-term profits than short-term gains. This leads to less frequency and less intense conflicts, and the more partners commit to the IJVs, the better the IJV's performance will be (Demirbag & Mirza, 2000). With regard to the relationship between commitment and performance, on the basis of a study of 880 Japanese IJVs, Cullen et al. (1995) find that performance and expected outcomes pay off with a greater commitment of partners to the IJVs. The same study also point out that the more important the IJVs are to their parents, the more committed that parent firms are to the IJVs. In addition, Isobe et al. (2000) find that foreign parent firms' commitment to technology transfer to IJVs has a positive effect on IJV performance. Besides, a commitment to IJVs can help partners achieve individual and joint goals without fear of being taken advantages of.

As with commitment, mutual trust between partners appears to be an important condition in an IJV relationship. Trust can be defined as the mutual confidence of the partners that none of them will exploit the other's vulnerabilities (Zhang & Li, 2001). Harrigan (1988) maintains that trust plays significant role in IJV performance. A long-term exchange between partners cannot function effectively in the absence of trust (Chowdhury, 1989). Inter-partner trust can reduce the costs in-

herent in shared ownership and improve coordination of efficiencies when part of a partner's objective for the IJVs (Parkhe, 1993; Yan & Gray, 1994), and correlates with IJV structure (Chowdhury, 1989). Researchers suggest that trust between partners must to be built over a period of time (Madhok, 1995) and it helps to reduce friction between partners (Parkhe, 1993). To sum up, partner trust and commitment are important to IJV success.

2.1.4 Cultural influences

Cultural difference between partners and its impact on IJV performance are the most common issues found in IJV research (Li et al., 2001). Cultural similarity may help IJVs to avoid problems and facilitate trust and cooperation between partners. Differences in cultural backgrounds between partners have been perceived as a threat to the survival of IJVs (Barkema & Vermeulen, 1997). However, a similar culture is not always the most valuable resources in terms of effect on IJV performance (Li et al., 2001) or may not affect IJV performance at all (Beamish & Fey, 2001). Li et al. (2001) show that despite their large cultural distance from their Chinese partners, IJVs established by Western partners perform better than IJVs established by partners from East Asia. In research on culture in IJVs, researchers examine the influences of both national and organizational cultures on IJVs. When organizational cultures show differences, misunderstanding and mistrust often arise (Pothukuchi et al., 2002).

In cultural research in IJVs, researchers have also been looking for the relationship between cultural differences between partners and IJV longevity. Interestingly, the results of these studies contradict each other. Beamish and Fey (2001) find that the home base of the foreign parent operating a JV in Russia did not affect IJV longevity. Park and Ungson (1997) maintain that cultural distance in general did not have an effect on dissolution of IJVs, but US-Japanese joint ventures lasted longer than US-US joint ventures. In the same vein, Li et al., (2002) argue that too little cultural distance might generate inadequate innovation or constructive conflict to influence IJV the overall outcome. In contrast, Hennart and Zeng (2002) find that IJVs that have parent firms from different countries will experience greater conflicts and therefore, have a shorter life than those with partners from the same countries.

In summary, cultural differences seem to have a strong influence on IJV operations. However, whether the degree of difference of cultures between partners results in a positive or a negative effect or indeed has no effect on IJV performance is still open to question.

2.1.5 *Learning in IJVs*

According to Kogut (1988) and Lyles (1988) and Hamel (1991) one of the most popular reason for firms to form IJVs is learning. In an IJV two or more organizations are brought together because of their complementary features and differences (Inkpen, 1997). The differences in partner's skill areas are fuel for partners to learn to achieve certain goals. This learning process can be expected to result in improving IJV performance (Lyles & Salk, 1996; Child & Yan, 2003). More specifically, Kogut (1988) maintains that learning is a process of improving an organization's actions through knowledge transfer and acquisition of a better understanding of its environments. Hyder (1999) distinguishes two types of learning including technological learning, which relates to production or technology and market-based learning which relates to local market knowledge. According to Child and Yan (2003) there are three aspects of learning including learning from experience, formation learning, and operational learning. Learning from experience involves parent company personnel gained from their previous contact with IJVs and international business being transferred to a new IJV. Formation learning is what partners learning, during the process of forming IJVs, and might include such elements as the process for seeking and negotiating with potential partners. Operational learning is learning to work effectively with partners in the daily operational activities of an IJV. However, the influence of knowledge from learning from experience on performance may decrease over time as the IJV meets its original needs and begins to develop its own capabilities (Lane, Salk, & Lyles, 2001).

Inter-partner learning can reduce one partner's dependence on another's knowledge (Inkpen & Beamish, 1997). Inkpen and Beamish (1997) argue that once an IJV is established, the foreign partners attach, a higher value to the acquisition of local knowledge, and that results in an increased probability of the IJVs instability increasing. When inter-partner learning is unbalanced, the fast learners tend to leave the IJVs. Even though partners are willing to learn, the degree of learning varies from partners to partners due to the differences in partners' ambitions, organizational size, complexity, and learning capacity of the partners (Hyder, 1999: 446). As a result, the role of learning of partners seems to positively affect the financial performance of IJVs, while it may have a negative influence on the stability and survival of the hybrid of organization.

2.1.6 *Environmental issues*

In addition to the internal factors those researchers have focused on discussed in the previous section environmental issues have also been a key topic in IJV re-

search. Environment is a very important issue in IJV research because it sets the context in which to evaluate the relationships between strategy and performance (Prescott (1986). The environmental factors often consist of host government behaviors, economical factors including exchange rate, inflation, and resource scarcity and the level of competition in the environments (Shortell & Zarac, 1988). Unexpected changes in local government policy can change the resources dependence pattern and cause a shift in the parent's relative bargaining power, which in turn changes IJV stability (Yan & Gray, 1994; Yan & Zeng, 1999). Hennart and Zeng (2002) mention that IJV parents need to adjust their strategies to unexpected changes in the external economic environment, and this may affect the survival of IJVs. In addition, industry dynamics can influence performance of IJVs. According to Kogut (1988) and Hennart et al. (1998), IJVs are less stable in industries that experience intensive consolidation of volatile growth. Ozorhon et al. (2007) finds no relationship between host countries related risks and IJV performance. The relationships between environmental issues and IJV performance, in summary, is one of the important topics in IJV research, however, the issues have not attracted much attention from academic researchers, resulting in limited knowledge of the area.

2.1.7 Control in IJVs

The previous sections have introduced the different factors focused on in previous IJV studies that may influence IJV operations and performance. However, these studies have neglected the role of control of IJV operations. The IJV control issue is important because even when IJVs operate in similar conditions they may not perform equally because they are managed differently (Chen, 2004). Vaidya (2000) proposes that it is important to manage a partner relationship effectively. Geringer and Hebert (1989) suggest that control is multi-dimensional and includes control focus, extent, and mechanisms According to Zhang and Li (2001), IJV control can be classified into different streams. The first stream considers the parent firm's equity share in the IJV as an indicator of its control over IJVs. The second stream relates to parent firm control over the specific operational activities of the IJV. The third stream is strategic control over the IJV.

One of the first studies of IJV control was by Stopford and Well (1972) on US multinational firms. That suggests that global integration and rapid technological development require parent firms to have more control over foreign subsidiaries. In addition, they also point out that the need for local resources can lead to controlling power being lost to local firms. In the same vein, Aiken and Hage (1968) suggest that a degree of control must be sacrificed if the firm wishes to benefit

from the resources contributed by other partners. In the same vein, Reynold (1984) suggests foreign firms may be willing to give up their dominant control to gain entry into markets that would otherwise be inaccessible. Subsequently, other researchers pointed out new markets that determine IJV control such as parent characteristics, strategic postures and environmental variables (e.g. Fagre & Wells, 1982; Franko, 1987, Gomes-Casseres, 1990).

Mjoen (1993) maintains that firms protect their proprietary knowledge by controlling specific activities of JVs. Moreover, Mjoen suggests that input provided by the parents influences their bargaining power, and that bargaining power is used to increase the parent's level of control over IJVs. Similarly, Li (2003), Kamminga and Meer-kooistra (2006) and Selekler-Göksen and Uysal-Tezölmez (2007) find that local parents were able to acquire control over their IJVs through the contribution of various resources. Therefore, bigger firms may prefer greater ownership control over their IJVs (Lecraw, 1984). In addition, Kobrin (1988) finds that firms that invested more in research and development and expertise prefer to have more ownership control over their IJVs. In contrast, Stopford and Haberich (1978) find that research and development intensive firms with a greater product diversity were more willing to accept less ownership control of their IJVs. They argue that these firms lack the ability to exploit their technical edge across many products in foreign markets and thus local firms may have better value in marketing expertise (Voris, 1998). Birnberg (1998) proposes five elemental factors to be considered in designing IJV control namely degree of commitment; degree of objective alignment; degree of environmental uncertainty; degree of trust between partners; and age of the relationship. Chen (2004) suggests important factors affecting IJV control design include the parent firm's intention, resource commitment, general competence, partner's trust, goal incongruence, and importance of IJVs, reliance of IJV on the parent firm, IJV life stage, and market growth.

Related to the dynamics of control in previous studies, Lynch (1993) proposes that IJV control evolves along parent strategy. The author suggests the four R's as determinants of IJV control, these are: responsibilities, resources, risks, and rewards. In addition, the author maintains that an IJV control structure should be flexible and change over time as strategic conditions change. In short, designing a control mechanism structure is complex and multidimensional (Kumar & Seth, 1998) and existing research tends to only consider one or two control dimensions simultaneously with limited attempts at integration (Geringer & Hebert, 1989).

2.1.8 *IJV performance*

The concept and measurement of organizational performance have been a controversial topic for organizational researchers. Due to the lack of consensus on this concept, the extant empirical research has not produced theory of performance measurement that can be applied across organizations (Tatoglu & Glaister, 1998). In addition, IJVs are not always formed to achieve conventional business goals such as profit and market share, but are set up for qualitative objectives such as organizational learning, co-opting or blocking competition (Contractor & Lorange, 1988; Hennart, 1988; Kogut, 1988). Some researchers have defined performance as the ultimate test of a firm's strategy (Schendel & Hofer, 1979), and also as multidimensional construct (Vryza, 1997).

Measurement of the performance of IJVs has become an important research topic in international business (Geringer & Hebert, 1991; Yan & Zeng, 1999). There are two main ways to measure IJV performance. The first way uses *objective measures* of performance including a variety of traditional financial indicators such as profitability, growth and cost position, the survival of the IJV (e.g. Killing 1983), its duration (Kogut, 1988), the instability of its ownership (Gomes-Casseres, 1987), the renegotiation of the IJV contract (Blodgett, 1992), and dissolution (Park & Ungson, 1997; Ring & Van de Ven, 1994). Objective measures have several limitations: measurements such as financial measures of performance are not always appropriate to the effective assessment of IJV performance (Killing, 1983). They are only good to explain the past performance of IJVs but fail to reflect the long term objectives of IJVs (i.e. reputation) (Anderson, 1990). Therefore, choosing performance measures depends on the parent firm's objectives (Lyles et al., 2000). Anderson (1990) argues that strategic decisions based on a one year old experience seem to be an antiquated mode of management. Furthermore, Lyles et al. (2000) maintain that the notion of performance should be understood in a real time framework. Moreover, the absence of concrete goals and actual motivations of parent firms makes it difficult to evaluate JV results (Parkhe, 1996). In addition, since most IJVs do not need to publish results, and those that are available are often tainted by problems of transfer pricing and tax shifting, reliable data on IJV performance is difficult to get (Zeng 1998). IJV survival and duration may also not be associated with IJV success (Parkhe, 1996). It may be a result of barriers to existence so a short lived IJV does not necessarily mean it is a failure (Harrigan, 1988). When parents firms' objectives are met, ending the IJVs would be normal method of termination (Lyles et al., 2000).

The second way is *subjective measurement* using the assessment of parent's satisfaction with IJV performance (Killing, 1983; Beamish & Banks, 1987) and the

achievement by parent firms of their strategic goals (Yan & Gray, 1994) which is considered to be more closely related to parent objectives. Subjective measurement is also quite popular in IJV research because of the problem of data access and measurements of object measurements. The measurements can be made by a managerial assessment when a foreign parent firm is satisfied with the venture; or when a local parent firm is satisfied with the venture; or when both partners are satisfied with the venture (Beamish & Banks, 1987; Killing, 1988; Parkhe, 1996). Geringer and Hebert (1991) find a significant correlation between the parent's assessment of IJV performance and that of the IJV's general manager. Peng and Luo (2000) also point out that a high correlation between self-reported data and archival data in China. Beamish and Delios (1997) conclude from their review that perceptual and objective measures of IJV performance generally correlate. These considerations suggest that perceptual measures of performance are suitable for IJV research.

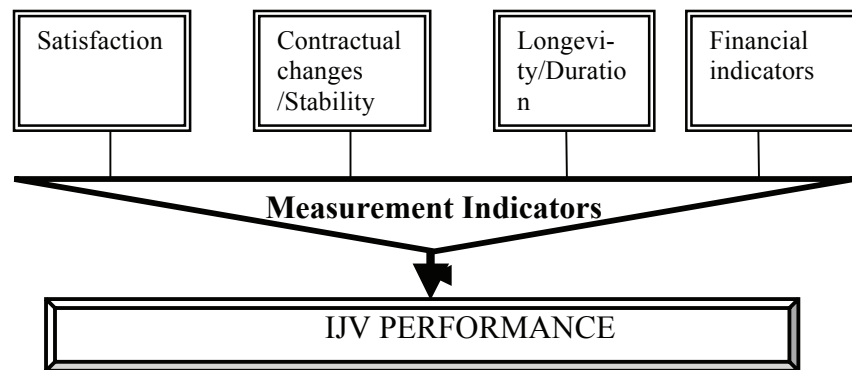


Figure 4. IJV performance measurement

2.1.9 Relationships between parent control and IJV performance

Researchers have paid considerable attention to the relationship between parent control and IJV performance. However, the results are not consistent. Killing (1983) who investigates 37 IJVs located in North America and Western Europe, finds that dominant foreign parent control results in better IJV performance than shared management control. Schaan (1983), who examines 10 IJVs in Mexico, finds that IJV performance will be better if parent firms focus control on the areas that are most important it. Lecraw (1984), who uses 153 subsidiaries of multinational firms located in the US, Europe, and Asia, concludes that the more importance the multinational places on the control of a subsidiary, the better the performance of its subsidiaries. In the same vein, Mjoen (1993) finds that a higher level of foreign parent control is associated with better IJV performance.

However, other researchers find contradictory results indicating that shared control or local parent dominated control systems lead to better IJV performance (Beamish, 1985; Geringer and Hebert, 1991, Tomlinson, 1970). Further, other researchers suggest that specific control by parent firms lead to better IJV performance. Supporting for this, Awadzi (1987), who uses a sample of 40 IJVs located in the United States, finds that high IJV performance relates to foreign parent firms having more control over accounting procedures, export and import, production, budgeting, training, and wages. On the other hand, high IJV performance relates to foreign parent firms having less control over pricing, purchasing, administration, costing methods, and quality control. In the same vein, Choi (2001) using 71 IJVs in Korea finds that split control by parent firms leads to better IJV performance than dominant and shared control. Zhang and Li (2001) contrary to all other viewpoints, propose that IJV performance is better if both foreign firms and local firms grant more autonomy to the IJV management team. In addition, Luo, Shenkar, and Nyaw (2001) study a dual parent perspective on control and performance using 295 IJVs in China. They find that both overall and specific controls are associated with performance for foreign parents, while only specific control is associated with performance for Chinese parents. In addition, they specified that under goal incongruity, Chinese parent control was associated with foreign dissatisfaction with IJV performance, but not vice versa. Li (2003), who studies the effect of parent control on Japanese-Chinese JV performance from the Japanese viewpoint, finds that control by Japanese parent firms is significantly linked to the export oriented IJVs but not to local- market oriented ones.

In an attempt to further the knowledge of IJV control, other researchers have tried to establish the links between different influential factors on parent control and IJV performance. Guidice (2001) studies the impact of parent firms' experience, strategic interdependence and control on IJV performance. Guidice finds that goals are most likely to be achieved when experienced parents use more control mechanisms while limiting the amount of interdependence among parties. In contrast, goals are least likely to be realized when inexperienced parents use fewer control mechanisms to manage heightened degrees of interdependence. Li (2002) conducts research on control, trust, and performance, finds that trust is more significant to IJV performance than control and that performance effects of control are contingent on the parent firm's distinct objectives for the IJVs. In contrast with the viewpoint that parent control influences IJV performance, some researchers such as Janger (1980), Tillman (1990), and Ding (1993), Xiansheng (1998) Duan and Chuanmin (2007) find no direct relationship between parent control and performance.

A review of the literature to date reveal there is no consensus about the relationship between parent control and IJV performance. The unresolved question for future study is whether there is a relationship between parent control and IJV performance, and if dominant control, equal control, minor control, or split control by foreign parent firms leads to better IJV performance. In addition, it has been noted in the literature that IJV control would evolve over time but it was not clear how IJV control changes and under what influences. Previous research topics on IJVs are summarized in **Figure 5**.

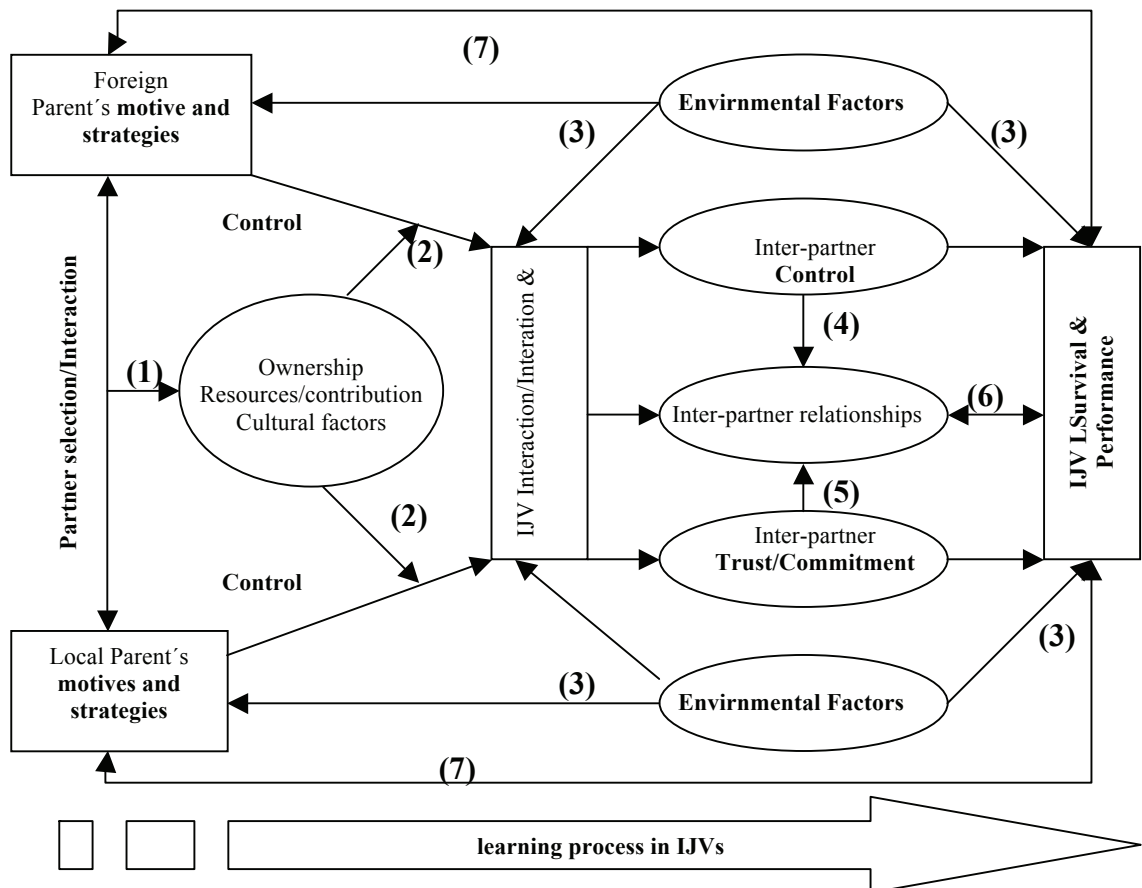


Figure 5. Areas of focus in previous IJV studies

To summarize, as discussed above and shown in **Figure 5** previous research on IJVs has focused on different topics – from the motives of partners firms entering IJVs, and partner-selection (see 1), to different factors affecting IJV control such as ownership, a firm's resources, and cultural factors (see 2); and how environmental factors affect the interactions between partners and also the survival and performance of IJVs (see 3). In addition, previous research focuses on analyzing how inter-partner relations are influence by different factors like partner control (see 4) and inter-partner trust and commitment (see 5). Furthermore, previous

research targets attempts to find out how inter-partner relations relate to IJV survival or IJV performance (see 6), and what IJV performance means to parent firms (see 7). In the IJV development process, researchers have also investigated the learning perspectives of partners in IJVs. From **Figure 5** above we can see absence of a study that provides a direct link between parent characteristics, contribution, strategies to IJV control, and IJV performance. In addition, there is no study that has focused on the link between the influences of host countries' environments on parent control exercised over their IJVs, and how this affects IJV performance. In addition, **Figure 5** above also illustrates that while there have been studies on how parent control influences IJV performance there is no study that examines the reversed effects of IJV performance on parent control over their IJVs. This dissertation attempts to build these missing links.

2.2 Foundation theories of IJV control

There are several theoretical perspectives on management control such as agency theory (e.g., Nohria & Ghoshal, 1994; Roth & O' Donnell, 1996; Sanders & Carpenter, 1998) transaction cost theory (e.g. Hennart, 1982; Hennart & Park, 1994; Hymer, 1960), resource dependence theory, the organizational learning perspective (Hedlund, 1986, 1994), and network theory (e.g., Ghoshal & Bartlett, 1990). However, not all theories are able to explain the complexity of IJV control.

With regard to agency theory O'Donnell (2000) who studied how MNCs manage foreign subsidiaries found that agency theory is limited in its ability to fully explain the phenomenon of foreign subsidiary control (O'Donnell, 2000: 525)- Regarding the use of agency theory to understand the parent-IJV relationship, Freeland (1999) maintains the theory is incomplete and inaccurate. Network theory views MNCs as the foci centre for interactions with other firms rather than for inter-firm relations or relations within MNCs. In the context of IJVs (e.g., Mainela, 2002), network theory views MNCs as a whole, and feels they can benefit greatly from transferring resources and competencies that were originally developed at different international locations within the firm (O'Donnell, 2000). This theory is not suitable for the study of IJV control within the parameters of this work, since the relationships between different subsidiaries knowledge transfer between headquarters and subsidiaries and between subsidiaries is excluded.

The theories, therefore, in JV literature that may help explain IJV control design and its evolution over time are resources dependence theory, transaction cost theory, organizational learning perspective (e.g. in Parkhe, 1996; Zhang & Li, 2001; Inkpen & Beamish, 1997). In this chapter, first, resource dependence theory,

transaction cost theory, and the organizational learning perspective are reviewed in connection with IJV research, specially, IJV control and performance. After that, they are integrated and justified for use as foundation theories in the present dissertation.

2.2.1 Resource dependence theory

Resource dependence theory was developed by Emerson (1963) and further progressed by Pfeffer and Salancik (1978), who proposed that control over critical resources by one organization can make another firm dependent on it. Critical resources may include technology, management know how, global service support, local knowledge, product distribution, material procurement, and equity share (Yan & Gray, 2001a). Resource dependence theory assumes that even when operating in the same industry, firms are heterogeneous in terms of their resources and capabilities. In addition, in competitive environments, to survive, organizations are dependent on each other for critical resources. By controlling resources, a firm can minimize the dependence on other firms and maximize the dependence of other firms on it. (Pfeffer & Salancik, 1978)

Resource dependence theory has viewed an IJV as a combination of parent firm resources, tangible and intangible, which create competitive advantages. In some countries such as China, an IJV is known as a marriage of a foreign firm's technology and a local firm's country specific knowledge, such as local economy, culture, and politics. In IJV research, resource dependence theory provides not only an explanation of why IJVs are formed but also why control is needed and accomplished by parent firms. Resource dependence theory is appropriate for examining IJVs because parent firms use IJVs to access valuable resources that they do not own (Chen & Chen, 2003). The power that comes from controlling the resources the dependent party needs can increase the bargaining power of the controlling party, allowing it to negotiate greater control over the IJV activities (Mjoen & Tallman, 1997).

In addition, Emerson (1962) argues that power is a property of social relationships. The power among partners could be balanced if each depends on the other in similar manner but not necessarily for the same things. In IJVs, power is needed to reduce uncertainty about a partner's behavior and expected contributions of resources. Further, if resources are not exchanged as stated in IJV contracts, then IJV performance may not be as expected. Besides, withholding information is likely to result in inappropriate resource allocations, thus threatening to make the relationship futile. As a result, where there is a high level of dependence between partners, there is the need for information to be freely exchanged be-

tween parties (Guidice, 2001). Partners in IJVs want to control and maintain an uninterrupted supply of the resources and information that they are unable to procure on their own (Pfeffer & Salancik, 1978).

Resource dependence theory has emerged as an important explanation for persistent firm level performance by emphasizing a firm's ability to create and sustain competitive advantage by acquiring and defending advantageous resource positions (Leiblein, 2003). In an IJV, the existing resources of one firm are expanded by the resources of the other parent. Resource dependence theory suggests that the choice of activities of control is important to JV performance (Choi, 2001). Parent firms engaging in IJVs face the problem of protecting the integrity and the use of the resources they supply, and therefore they have a motive to seek a certain level of control over IJVs (Child et al., 2005). Resource dependence theory highlights the importance of maintaining power over key resources (Pfeffer & Salancik, 1978). Resource dependence theory also suggests that insufficient control over an IJV can lead to parent firms being unable to protect or efficiently utilize the resources they provide. Resource dependence theory assumes that firms within the same industry are heterogeneous in terms of their resources and capabilities; all assets cannot be bought or sold in markets; decision makers are subject to bounded rationality; and strategy is used to achieve a competitive advantage (Peteraf, 1993). The competitive advantage of a firm is the result of a strategy that utilizes its unique resources and skills.

The application of resource dependence theory will, therefore, deepen our understanding of what resources parent firms prefer to control and how they control them. In particular, the resources that partners contribute give them power bases for their control over IJVs or in other words, resource dependence theory suggests that parent firms who contribute more unique resources or more significant resources to IJVs maintain better positions in the control IJVs. It is also recognized that an IJV control structure will change as one parent's dependence on the other parent's resources changes over time (Zhang & Li, 2001).

2.2.2 *Transaction cost theory*

In addition to resource dependence theory, it is *transaction cost theory* (Williamson, 1985, 1988) that has attracted the most attention and contributed greatly to IJV research (Beamish & Banks, 1987; Buckley & Casson, 1988; Gomes-Casseres, 1990; Hennart, 1988; and Parkhe, 1993). Transaction cost theory has not only successfully explained why IJVs are formed (Zeng, 1998) but also been extended to study how foreign partners can manage IJVs through appropriate control. According to Geringer and Hebert (1989), the use of transaction cost theory

in the investigation of control and performance of IJVs is one of the most promising research avenues that can help clarify and resolve empirical inconsistencies.

Transaction cost theory assumes that parties are bounded rationally and susceptible to opportunistic behavior. Bounded rationality means that all possible future contingencies cannot be foreseen and contracts remain incomplete. Incomplete contracts create the opportunity for opportunism too. Transaction cost theory argues that governance forms vary on a continuum from market to hierarchy, with various hybrid forms in between (Williamson, 1991). The choice of governance form is based on the efficiency of production and transaction costs (Williamson, 1975, 1985) and the need to control the behavior of transacting parties (Provan & Skinner, 1989).

According to transaction cost theory, the three factors that drive transaction costs are asset specificity, transaction frequency, and uncertainty over the outcome of the transaction (Williamson, 1985). While internalization appears to be desirable under certain conditions, complete movement to the hierarchical end of the continuum is not always necessary or possible (Guidice, 2001). In such cases, the IJV form is suggested to be the most efficient and effective means of reducing opportunism (Ramanathan, Seth & Thomas, 1997). In IJVs, sharing equity and asset investment holds each party mutually hostage (Kogut, 1988).

In general, transaction cost theory suggests that to curb opportunism, the use of governance mechanisms such as contracts, monitoring, shared ownership, and reputation effects (Williamson, 1975, 1985) is necessary. Provan & Skinner (1989) find a positive relationship between control over decisions by a partner and the tendency to behave opportunistically against that partner. Besides, transaction cost theory also argues that the more critical the resources contributed by a foreign parent firm to the IJV, the greater the need for control.

2.2.3 *The organizational learning perspective*

The organizational learning perspective is important in IJV literature (Guidice, 2001). Learning or knowledge acquisition is a way to achieve competitive advantage and enhance organizational performance (Leventhal & March, 1993). Fiol and Lyles (1985: 811) define organizational learning as the development of insights, knowledge of past actions, the effectiveness of those actions and of the future actions. Regarding learning in IJVs, Child & Yan (2003) point out three aspects of learning including learning from experience, formation learning, and operational learning. Learning from experience is the transfer of relevant knowledge gained from previous experience of IJVs by parent firms. Formation learn-

ing takes place when parent firms seek and negotiate terms with new partners. Operational learning is learning how to work effectively with local parent firms in the subsequent operation of an IJV. (Child & Yan, 2003: 287-288)

Organizational learning can help to explain how parent firms develop knowledge about IJV management, and how knowledge influence IJV performance (Simonin 1997). Organizational structure is an important variable in the learning process (Senge, 1990). Organizations learn to adopt the structure that is suitable to their operating environment (Nicolini & Meznar, 1995). In the same vein, Hedberg (1981) maintains that during their development, IJVs adjust themselves to reality and knowledge is used to improve the fit between their organizations and their operating environments. From the organizational learning perspective, an IJV can be described as a race to learn. Inter-partner learning can shift the relative power between the partners and thus make initial control unsuitable, leading to reallocation of control (Inkpen & Beamish, 1997). This change is needed because inter-partner learning rates are different and learning can reduce one parent's dependence on the other parent's knowledge.

Entering a new market through IJVs, the foreign parent firms certainly spend a great deal amount of time learning about their local partners. In their learning process from identifying suitable partners to the formation process of IJVs, the foreign parent firms face certain universal barriers to working and making IJVs a success with the local parents. Based on an organizational learning perspective in IJVs, the *post-formation process approach* by Brouthers and Bamossy (2006) highlights the learning process that IJVs undergo after they are formed to overcome barriers to success. Brouthers and Bamossy (2006) categorize three main types of barriers to IJV success: national cultural differences that affect the partners' communications; the ability to create and maintain trust within IJVs; the establishment of a control mechanism that promotes cooperation.

In addition, Brouthers and Bamossy (2006) argue that most countries in Eastern Europe had long worked under centrally planned economies or centralized control structures which discouraged managers from communicating openly employees or each other. Instead, they just did what they were told to do and had little say in production and had almost no idea of international marketing activity. The main purpose of control in the system here was to report to the "central committee" or state the plan and instructions had been followed. A part of such organizational control was a system of reward which also emanated from central command and rarely promoted cooperation within an organization. According to Brouthers and Bamossy (2006) all of these heritages issues form barriers to IJV success. Hence, the design control in IJVs has to allow IJVs to go through the learning process in

their development to overcome barriers to success. As a result, an IJV control structure needs to leave room to encourage local partners to learn how to work more effectively.

2.2.4 *Toward an integrated approach*

Previous research has pointed out the necessity of using different approaches to describe IJV behaviors (Osborn & Hagedoorn, 1977). This is because each theory considers different organizational sides and aspects that are related to IJV control structure. Mjoen and Tallman (1997) have proposed the combination approach between transaction cost and resource dependence in IJV research. They maintain that specialized control design would provide foreign parent firms with protection and enable exploitation of key resources, and that it could be done through increasing bargaining power. The core research task of the present dissertation is to investigate foreign parent control in IJVs and how control exercised over IJVs by foreign parent firms influences IJV performance. For this purpose, transaction cost and resource dependence theory help to explain why IJVs are formed to maximize gains and minimize costs and to resolve the question of whether firms should “make” or “buy”. Thus, it helps to explain how the initial design of control structures in IJVs should be arranged in order to, on the one hand, ensure the assure foreign parent’s objects are met and interests are pursued, and on the other hand, to avoid misuse and unintended exposure of their resources contributed.

Transaction cost theory also helps to a proposed IJV governance structure to prevent opportunistic behavior by local partners, so that foreign parents become more willing to contribute their resources, especially technology, and management know-how, thus resulting in better performance. Resource dependence theory helps to explain the capabilities of foreign parent firms to exercise control in IJVs. Both resource dependence theory and transaction cost theory are very much static and therefore do not explain fully the dynamic nature of IJV development. In addition, whereas transaction cost theory holds that IJV performance is determined by the nature of the transactions to be performed, resource dependence theory emphasizes the significant role of parent firms’ resource alignment (Chen & Chen, 2003).

Organizational learning theory, on the other hand, does not provide many explanations for the existence of, or the design of, the initial control structure of IJVs. However, the theory plays a very important role in offering a foundation to explain the changes in and dynamic aspects of IJVs. More specifically, organizational learning theory suggests that organizations are learning. Parent firms learn and acquire knowledge through IJVs. When knowledge acquisition shifts the bal-

ance of bargaining power between partners, mostly toward Western firms (Yan & Gray, 1994), IJV structural change may result (Inkpen & Beamish, 1997).

To summarize, each theory has its own limitations and the use of one single theory in previous research about IJV control and performance has produced conflicting results. Thus an integration of multiple approaches to enhance better understanding of IJV control is necessary (see e.g. Yan & Gray, 1994; Kogut, 2002).

Table 3. Foundation theories of IJV control in the present dissertation

Implications of the theory in the dissertation	Transaction Cost Theory	Resources Dependence Theory	Organizational Learning approach
Motives of IJVs exist	Hybrid organization is more efficient than market and hierarchy alone	Organizations are dependent on each other for critical resources	A means to acquire new skill and routines
Initial control design	To reduce opportunistic behavior and decrease transaction costs	To command resources that are vital for the success of IJVs	Promoting knowledge transfer and learning to take place
Change in control design	Need to reduce controlling costs taking into account performance overtime	Due to increasing independent from local partner's resources over time	Accumulating local experiences & specific knowledge leading to shift in bargaining power and adaptive actions over time needed to strengthen performance

As Parkhe (1996: 451) states: "While each theory provides a useful lens, no theory alone is sufficient to encompass the complexity of JVs". Therefore, in the present dissertation transaction cost theory, resource dependence theory, and the organizational learning perspective are integrated and applied to thoroughly investigate IJV control design (in three dimensions including control focus, control extent, and control mechanisms) and their relationships to IJV performance over time. The integration of the foundation theories is summarized in **Table 3**.

2.3 Conceptualizations of control in IJVs

In the organizational literature, management control means the process by which an organization influences its members and its units to work in ways that meet organizational objectives (Glaister & Bluckley, 1998a). According to Child et al. (2005:15), control is a central aspect of management, and essential in any system

that holds managers accountable for their actions and decisions. Ouchi (1977: 95) suggests that “control can be conceptualized as an evaluation process which is based on the monitoring and evaluating of behavior or of outputs”. These papers reveal how control can be used to manage individuals and subunits. Doz and Prahalad (1984) suggest that management control of multinational operations is often required to balance conflicting priorities between responsiveness at the national subsidiary level and the central coordination of global competitiveness.

In IJVs, because there are two or more parties involved, management control is complex (Geringer & Hebert, 1989). The main purpose of control in JVs is to attain predictability and critical information on IJV operation through some regulatory means (Merchant, 1984; Makhija & Ganesh, 1997), thus it protects the parent firm’s interests.

Killing (1983) focuses on the IJV control structure. He proposes that control is a relative phenomenon. Killing (1983) is followed by the works of Schaan (1983), Beamish (1984), Lecraw (1984), Geringer and Hebert (1989), Blodgett (1991), Yan (1993), Yan and Gray (1994) and some other recent research (see **Table 2** and **Table 6**). This stream of work, however, does not share a consistent notion of control. Killing (1983) defines control as the amount of decision power that each parent exercises over the daily operations of an IJV.

Hebert and Beamish (1994) define control as the process by which the behaviors and outputs of the IJVs are influenced by parent firms. Yan and Gray (1994) conceptualize management control of IJVs in three ways: making strategic decisions, managing the venture’s routine operations, and designing the venture’s structure and procedures. Harrigan (1985) and Williamson (1997) suggest that partners have to exert control and influence over IJV’s decision – making to ensure that their goals pursued and to curb opportunism by other parent firms.

In the present dissertation, IJV control is defined as the influence of foreign parent firms on IJV operations. Furthermore, as suggested by previous studies (see e.g Geringer & Hebert, 1989; Das & Teng, 1998; Ramaswamy et al.,1998; Lu & Hebert, 2005) this dissertation adopts a multi-dimensional approach to control by Geringer and Hebert’s (1989). According to Geringer and Hebert (1989), to be able to run an IJV successfully, IJV control should consist of three dimensions-control mechanisms, focus, and extent. This section, addresses control dimensions.

2.3.1 *Control mechanisms*

In general control mechanisms are structural arrangements deployed to determine and influence what members of an organization do (Fryxell et al., 2002). Control mechanisms consist of a variety of mechanisms including formal and social control (see **Table 4**) that are available to firms to exercise effective control (Friedman & Beguin, 1971; Behrman, 1977) to protect their interests in IJVs (Groot and Merchant, 2000). Although both formal and social control mechanisms are organizational arrangements set up to influence members of IJVs, they differ in their impact on organizational behavior (Fryxell et al., 2002).

Formal control depends on hierarchies, standards, (Perrow, 1972) codifies rules, procedures, goals, and regulations that specify desirable patterns of behavior (Das & Teng, 1998). They are explicit in their prescription of behavior and in their means of enforceability (Das & Teng, 1998). They are aimed directly at protecting the assets of parent firms (Fryxell et al., 2002). Formal control mechanisms help to decrease the potential for opportunism by controlling the assets through hierarchical means (Mjoen & Tallman, 1997). Foreign parent firms exercise formal control mechanism primarily through major ownership, the power of veto, formal plans, budgets, reports, agreements, and approval of the composition of a venture's board and also through control of strategic decisions (Schaan, 1983). Formal control mechanisms are usually agreed upon and imposed by both parent firms (Fryxell et al., 2002). In terms of formal control, prior research points out that foreign parent firms often favor the use of majority equity as the main control mechanism of IJV activities.

This, however, does have some limitations such as when: a majority equity share is not available; the decisions of an IJV's board of directors cannot be expected to reflect a majority equity position without qualification; or when it may not be an effective means of control, for example- where the protection of core knowledge and its effective use come into play (Child et al., 2005). To enhance control of IJVs, in addition to majority equity shareholdings, parent firms use different formal and informal mechanisms including formalizing planning and approval processes for capital budgeting and resource allocation, and laying down procedures and routines for IJVs. The use of contracts to restrict an IJV's use of technology and brand name, as well as access to suppliers and markets, is another important weapon in the battle to control any unexpected behavior of local parents.

In addition, the board of directors is one of the most important control mechanisms foreign parent firms utilize in their IJVs due. An IJV board of director's role is seen as vital to achieving the IJV's goals as set by parent firms (Guidice, 2001) through monitoring, evaluating and guiding IJV activities.

Table 4. Previous studies of IJV control mechanisms

Control mechanisms	Studies	Results
Formal		
1. Ownership	Killing (1983), Schaan (1983), Lecraw (1984), Blodgett (1992), Hebert & Beamish (1997), Lee et al. (1998), Ramaswamy et al. (1998), Xiansheng (1998), Wang et al. (1999), Li (2003) Dhanaraj & Beamish (2004) Child et al (2005), Glaister et al. (2005), Lu & Hebert (2005). Selekler-Göksen & Uysal-Tezölmez, (2007). Duan & Chuanmin (2007).	Equity share plays an important role in the level of IJV control but it may not equate with the constitution of the IJV board.
2. Board of director	Child et al. (1997), Kumar & Seth (1998), Child & Yan (1999), Groot & Merchant (2000), Glaister et al. (2005). Selekler-Göksen & Uysal-Tezölmez, (2007). Duan & Chuanmin (2007).	Mix results with the control of proportion of ownership in IJVs by foreign parent firms and IJV performance.
3. Appointment of key personnel	Child et al. (1997), Kumar & Seth (1998), Child & Yan (1999), Wang et al. (1999), Groot & Merchant (2000), Li (2003), Kabst (2004), Glaister et al. (2005). Selekler-Göksen & Uysal-Tezölmez, (2007). Whitelock & Yang (2007). Duan & Chuanmin (2007).	Positively related to strategic dependence between parents and IJVs. As an effective mechanism to make or approve all major policy in the IJV-whether financing, investment, or HR. Foreign parent firms need to fill key positions in areas where they bring specific assets to the IJVs. IJV managers act as links to and informers for parent firms.
4. Strategic plan	Child et al. (1997), Ramaswamy et al. (1998), Xiansheng (1998), Child & Yan (1999), Li (2003).	An important means for foreign parent firms to achieve their established goal for their IJVs.
5. Setting up policies and procedures	Glaister (1995), Calantone & Zhao (2001), Glaister et al. (2005). Whitelock & Yang (2007).	As a condition for success of technology transfer from foreign parent firms to their IJVs.
6. Partner right to veto IJV management	Child et al. (1997), Kumar & Seth (1998), Groot & Merchant (2000), Glaister et al. (2005).	An effective mechanism when partners are minor shareholders.
Informal/Social		
1. Communication	Shenkar & Zeira (1992), Das & Teng (1998), Glaister et al. (2005), Gong et al. (2005), Kamminga & Meer-Kooistra (2006).	Effective communication is important in fast changing environments related to decision making process.
2. Personal relationship	Groot & Merchant (2000), Child & Yan (2003), Glaister et al. (2005).	Important mechanisms IJV control in later IJV development process.
3. Training	Dianne (1997), Makhija & Ganesh (1997), Das & Teng (1998), Kumar & Seth (1998), Li (2003), Gong et al. (2005), Brouthers & Bamossy (2006), Welch & Welch (2006).	An Effective way to motive local employees, to promote corporate culture, and to improve effectiveness of human capital.
4. Social knowledge	Makhija & Ganesh (1997), Das & Teng (1998), Kumar and Seth (1998), Lyles et al. (2000), Lu & Hebert (2005).	Important aspect for parents to deal with IJV managers, and employees.

In addition, the board of directors can exercise control by exercising its power of veto and influence in strategic deliberations and the decision making process (Kumar & Seth, 1998). In the relationship to parent firms, Shortell and Zajac

(1988) suggested that an IJV board of directors should work closely with their parent firms to enhance the potential for useful interaction.

The appointment of key personnel is also an important control mechanism because it ensures that the IJV's management team has the required skills to run the IJV effectively (Kumar & Seth, 1998). It is important to have IJV managers from foreign parent firms because they transfer the foreign parent firm's values, objectives, and ways of doing things to the IJVs (Killing, 1983).

These IJV managers can also serve as the direct information link between parent firms. They foster smooth communication and provide parent firms with a channel for face to face interaction (Geng, 2004). The smooth communication, the frequently repeated face to face interaction, and the opened exchange of information enhance mutual understanding. This helps to reduce uncertainty and unpredictability, and promote cooperation among parent firms (Gulati, 1998). However, foreign parent firms do not need to appoint large numbers of their loyal followers to exert a significant control influence (Groot & Merchant, 2000).

The term "social control" has been used interchangeably with "informal control," and "normative control" (Leifer & Mills, 1996). Social control is designed to promote expectations and mutual commitments through which IJV managers learn to share common attitudes and knowledge of the organization (Nonaka & Takeuchi, 1995). Social control mechanisms permit the evolution and inculcation of norms and values through structural personal interaction and training (Fryxell et al., 2002). Social controls refer to mechanisms such as informal communication, information exchange and training, mentoring, and development of a common organizational culture – one that fosters shared values and norms without explicitly restricting the behavior of the people targeted by those social controls (Schaan 1983; Chalos & O'Connor, 1998; Das & Teng, 1998). Thus, social control can foster a sense of respect between the IJV and its parents (Lyles et al., 2000). When exercising social controls parent firms provide their IJVs with clues to the confidence they have in their IJV's integrity (Larson, 1992; Chen, 2004).

In addition, foreign parent firms use social control to promote their corporate culture to IJVs (Child et al., 2005), thus increasing foreign parent firms' confidence in IJVs (Chen, 2004). A lack of understanding of the other partner's culture and policies, may lead to misunderstandings and problems. Therefore, social control is one of the most important IJV controls (Das & Teng, 1998) that helps, on the one hand, to increase the IJV management's loyalty and align the IJV's operations with its parent's interests (Chen, 2004). On the other hand, social control may have a strong impact on activity coordination and resource exchanges (Lyles et al., 2000). Parent foreign firms use social control to control IJVs by rotating

personnel between the IJVs and parents or inviting IJV managers to parent training sessions and seminar. In this way, foreign parent firms are able to integrate their culture and the culture of the IJV and enhance the commitment of IJV managers from local parents (Gupta & Govindarajan, 1991).

Maintaining effective communication between parent firms and IJVs is also an effective informal control mechanism. Previous research points out that a lack of communication between parent firms and IJVs may delay the decision-making process slow down IJVs operation due to the need to wait for approval and the increase the possibility of misunderstandings (Shenkar & Zeira, 1992). Delaying the decision-making process may have serious consequences in fast changing markets such as the emerging Chinese market (Gong et al. 2005).

Another way to obtain control over IJV activities is by developing regular personal relations with the IJV's senior managers and local parent's representatives in the IJV. So in this mechanism, foreign parent representatives are assigned with sufficient time not only to monitor the IJV progress but also to create the necessary personal contacts to support IJV activities. Informal control mechanisms such as technical advisory and managerial inputs offered to IJVs on a continuing non-contractual basis have considerable potential to enhance control over IJV activities. This is because through working together, discussing issues, and transferring technology and management know how to the IJV team, a foreign parent can increase the skills of the IJV team and make sure the IJV staffs and products are up to their standard. An added benefit is that the foreign parent can monitor the behavior of IJV staff and thus take appropriate action (Child et al., 2005).

Training employees in IJVs is also a rather important form of social control that may influence IJV performance. This is because existing employees are more liable to bring with them attitudes and work practices from the old traditional systems to IJVs (Warner, 1995). A lack of training for function can reduce the effectiveness of human capital of IJVs as employee skills cannot be properly exploited, leading to reduced competency in IJVs and indirect to reduced motivation levels (Gong et al., 2005).

Compared to formal control mechanisms, social control mechanisms have the potential to reduce monitoring and contracting costs and permit the flexibility and adaptability that are critical to IJV performance in the later stage (Dyer, 1997). However, social control alone may not be enough to deliver parent firms their objectives for the IJVs since it may not exist or be very limited in the early stages of the IJV lifecycle.

In short, as summarized in **Table 4**, the term control mechanism as used in the present dissertation consists of *formal control* and *social control*. The main formal control mechanisms consist of ownership, composition of the board of directors, appointment of key personnel, strategic planning, setting up policies and procedures, right of veto and score IJV management. The social control mechanisms include communication, personal relationships, technological and managerial training and social knowledge.

2.3.2 *Control focus*

In the area of control focus, partners can choose to have a *broad control* focus and attempt to exercise control over the entire range of the IJV's activities, or they can have a *narrow control* focus and confine their control activities to performance dimensions they consider to be the most critical (Geringer & Hebert, 1989; Groot & Merchant, 2000, see **Table 5**). Child et al. (2005) maintain that depending on factors such as a parent firm's competencies and the critical nature of such activities, parent firms may focus their control on activities related to technology in one case, but on market related activities in another. In addition, foreign parent firms often see it as important to focus their control on financial and accounting areas by having their own financial manager in IJVs in order to ensure accurate reporting (Child & Yan, 1999).

Human resource activities may determine the extent to which the intended objectives of control are achieved (Geringer & Frayne, 1990). IJVs often pose problems for human resource (i.e. see Beamish, 1988; Bleeke & Ernst, 1991) as usually the dominant partner tries to impose personnel policies on the other partner.

Control extent refers to the tightness of control which is exercised (Geringer & Hebert, 1989). Tightly controlled organizations tend to be strict with respect to their employee's dress code, punctuality, and cost-consciousness (Hofstede, Neuijen, Ohayv & Sanders, 1990) and detail oriented and precise in operation matters (O'Reilly, Chatman & Caldwell, 1991).

However, parent firms' objectives are likely to be achieved only if the joint venture is staffed with qualified personnel. Thus strategic management of human resources is crucial for parent firms to maximize performance (Rao & Teegen, 2001). Through controlling the human resources department of IJVs, foreign parent firms can select the key management of the in IJV.

This permits greater control over IJV activities in the way that parental values are directly transferred into the IJV (Killing, 1983) so that the parent's interests are observed and achieved (Guidice, 2001).

Table 5. Previous studies of IJV control focus

Areas of control focus	Studies	Results
1. Marketing, sales, and distribution	Child et al. (1997), Li (2003), Kabst (2004), Glaister et al. (2005). Whitelock & Yang (2007).	. Important areas for IJV performance with domestic market oriented IJVs
2. Procurement	Calantone & Zhao (2001), Craig & Aron (2004), Glaister et al. (2005).	. To maintain stable and quality input supplied at a low cost level
3. General management and operation	Awadzi (1987), Child et al. (1997), Chalos & O'Connor (1998), Child & Yan (1999), Groot & Merchant (2000), Calantone & Zhao (2001), Li (2003), Glaister et al. (2005). White-lock & Yang (2007).	. Important lever for control in its own right against opportunistic behavior.
4. Finance and accounting	Awadzi (1987), Child & Yan (1999), Craig & Aron (2004), Kabst (2004), Barden et al. (2005), Kamminga & Meer-Kooistra (2006).	. To ensure accurate reporting, and performance measurement and avoid possible conflicts in profits repatriation
5. R & D and development	Calantone & Zhao (2001), Li (2003), Kabst (2004) Child et al. (2005). Whitelock & Yang (2007).	. Important area to maintain parent firm's competitive edge and against opportunistic behaviors
6. Production and quality	Zeira et al. (1997), Li (2003), Kabst (2004), Child et al. (2005). Whitelock & Yang (2007).	. Key area to control in manufacturing IJVs to ensure the IJV's output meets parent firm's plan & standards
7. Human resources	Harrigan (1988), Frayne & Geringer (1990), Nam (1995), Rao & Teegen (2001), Geng (2003), Geng (2004), Child et al. (2005), Selekler-Göksen & Uysal-Tezölmez, (2007).	. To make sure key positions are filled by qualified personnel: to promote more commitment; selective control via gatekeepers as an efficient mechanism to reduce opportunistic behavior.

In the same vein, Kabst (2004) proposes that through staffing of functional gatekeepers, foreign parent firms can protect their specific investment in IJVs. According to Kabst (2004), if foreign parent firms have brought R & D/production/marketing/sales-specific assets into the IJVs, then they exercise control by filling those R & D/production/marketing/sales positions. This staffing creates provides protection against counter opportunism and thus monitoring and governing agency problems (Gong et al., 2005).

Zeira et al. (1997), who studied IJVs in Hungary, found that the application of the Human Resource Management practices of the host culture increase the effectiveness of IJVs. Staffing gaps may exist when foreign parent firms over staff IJVs with their own superfluous personnel or when foreign parent firms fail to make vital human resource available to the ventures (Harrigan, 1988). Staffing gaps result in lower productive capabilities, leading to lower IJV performance (Gong et al., 2005). In short, the areas of control focus in the present dissertation consist of marketing, sales, and distribution, procurement, general management and operation, finance and accounting, R & D and development, production and quality, human resources. In the present dissertation, the control focus is considered to be broad when it is based on more than two areas, and narrow when it is based on only one or two areas.

2.3.3 *Control extent*

Tight control can be effected through any mechanism that provides a partner with a high degree of certainty that personnel in the IJV will act as the given partner wishes. Control is tight from a partner's perspective if that partner has the right to make or approve the key decisions (Geringer & Hebert, 1989), or if approval reviews are frequent, detailed and performed by a knowledgeable person, the partner trusts (Child et al., 2005).

Control is considered to be tight if the IJV staff is held strictly accountable for adhering to a complete set of prescribed actions such as policies and procedures. According to Child et al. (2005), tight control is a reflect on of frequent and precise reporting. Control is tight if measurements of result are objective and also often include significant rewards or punishments that are definitely linked to the accomplishment of or failure to accomplish targets on a short term basis. A definite link between results and rewards means that no excuses for missing performance targets are tolerated (Groot & Merchant, 2000).

Table 6. Recent studies on IJV control (1995-2007)²

Studies	Sample Size	IJV Location, Industrial type (*)	Factor Influence Control Choice	Data collection, Method of Analysis	Findings
Glaister (1995)	94 UK-IJVs	. UK . C-S	Contract form, equity share, time period of IJV formation, nationality of foreign partner, industry group, broad purpose of the venture	. Survey . Chi-squared test	No significant evidence of variation in the dimensions of control across characteristics of sample but equity share. Parents seek to focus their influence on particular decisions and activities rather than attempting to extend their control over the whole venture.
Ding (1997)	34 IJVs	. Cross nations . C-S	Equity ownership, staffing, wage & labor policy, product development, product quality.	. Survey . Regression	Dominant managerial control exercised by foreign parent firms has a positive impact on the IJV performance.
Mojen & Tallman (1997)	102 Norwegian IJVs	. Cross nations . C-S	Culture, experience, strategies, laws, bargaining power, relative contribution, equity share	. Survey . t-test, two tailed test	Bargaining power is used to increase level of control over specific activities and overall control.
Chalos & O' Connor (1998)	4 Sino-US JVs	. China . M	Strategic objectives, transaction costs, cultural factors	. Survey . Correlation	The control systems of young IJVs are embryonic and evolved. No significant cultural differences found in the preference for management controls. The more complementary strategic objectives of parents, the better performance.
Kumar & Seth (1998)	64 US IJVs	. US . M	Strategic interdependence, environmental uncertainties	. Survey . Correlation	The importance of the degree of strategic interdependence and the moderating role of environmental uncertainty influence the design of control mechanisms.
Wang, Wee, & Koh (1998)	148 Sino-Singapore IJVs	. China . C-S	Major share holding, capital, and resource allocation, technology and management advantages	. Interview, survey . t-test	Greater control associated with the right to appoint the general manager, chairman of the board, and financial manager.
Chang & Taylor (1999)	107 MNC's subsidiaries	. Korea . M	Ownership, subsidiary's relative importance, Nationality	. Survey . Correlation	The size of the subsidiary relative to the MNC, moderates the relationship between the degree of ownership and amount of output control. The national culture accounted for the type of control exerted.
Child & Yan (1999)	67 IJVs	. China . M	Non-capital resources, ratio of IJV board members, key executive position, strategic and operational control, cultural and informal mechanisms.	. Interviews . t-test, correlations	Equity share is the major lever to exercise strategic and operational control through its effects on the appointment of board members and key executive positions. Non capital resources have a direct effect on operational control.
Groot & Merchant (2000)	3 IJVs	. Cross nations . M	Parent's objectives, IJV's fit with the parent's units, trust in other partners	. Interviews . Comparative case analysis	Control tightness related to the parent's unique knowledge and capacity, management style, pressure for short-term performance, but negative with regard to the level of trust. Control focus related to the breadth of parent's, parent objective, parent's know-how. Control mechanisms related to parent's level of trust.
Johnson et al. (2001)	153 Japanese IJVs	. Cross-nations . Cross-section	Direct and indirect factors such as national culture, experience of firms, resources	. Survey . Regression	Significant variation in control by national culture for the effects on the control of IJV experience, strategic importance, product similarity, and resource dependence.
Yan & Gray (2001a)	90 US-Chinese IJVs	. China . M	Control strategic, operational, structure. Bargaining power: alternatives, strategic important, capital resources, non-capital resources.	. Survey . Descriptive statistics	Bargaining power derived from the negotiation context and from contributing with critical resources is the determining factor in management control.
Fryxell, Dooley, & Vryza (2002)	129 US-IJVs	. US . C-S	Trust, age of IJVs	. Survey . Regression analysis	Formal control and IJV performance were found to be positively related in young IJVs but negatively in more mature IJVs. Social control and IJV performance were positively related in the presence of trust between parents.
Mohr (2003)	137 German-Chinese IJVs	. China . NA	Trust, contributed resources.	. Interviews, survey . Correlation	Trust is significantly negative with strategic and operational control
Li (2003)	215 Japanese Chinese IJVs	. China . M	Equity ownership, interdependence between parent firms and IJV, monitoring by parent firms	. Survey . Regression	Ownership ratio, interdependence in physical-process resources, strategic monitoring are significant factors for control.
Chalos & O' Connor (2004)	117 US-Chinese IJVs	. China . M	Equity ownership, partner knowledge, asset specific investment.	. Survey . Correlation	Partner knowledge and specific asset investments influenced a broad set of control.
Pangarkar & Klein (2004)	76 Singapore based IJVs	. Cross nations . S and M	Size of the IJV, equity ownership, cultural differences.	. Survey . Regression	Prior relationships with local parents lead to less control over the IJV. No significant relationship found between parent differences and control
Lu & Hebert (2005)	720 IJVs	. Less developed Asian countries . Cross-section	Equity ownership, culture distance, country risk, IJV size,	. Data mining . Correlation	Social knowledge can serve as substitute for equity control. High level of foreign equity control leads to high IJV survival rate
Brouthers & Bamossy (2006)	8 IJVs	. Central & Eastern Europe . Cross section	Ownership, social, formal control	Interviews Case analysis	Performance is dependent on firms overcoming barriers to success created by ownership positions and control mechanisms.
Whitelock & Yang (2007)	61 IJVs	. China . M	IJV Strategies, objective, and daily Operations	Regression	different strategic objectives of foreign partners have different performance outcomes based on the degree of control exercised by the partner and the focus on different IJV activities

(*) M: Manufacturing

C-S: Cross section

S: Service

NA:

Not available

² Studies here selected based on current studies related to different dimensions of IJV control studies

Controls can be tightened by more intensive training of IJV employees in production and management techniques (Van Sluys & Schuler, 1994). However, tight control may have side effects as Child et al. (2005) argue that if controls are exercised too frequently and in a domineering manner, it is likely to lead to significant ill will and the eventual breakdown of IJVs.

For foreign parent firms, the important issue is how to choose a set of control mechanisms, control focus, and control extent that produces good control. Groot & Merchant (2000) maintain that parent control should bring more benefits to IJVs than its costs (e.g. governance costs, limitation of IJV's flexibility and responsiveness). While previous research has not provided evidence directly explaining how parent firms make control structure choices (Groot & Merchan, 2000); it has suggested some possible determinant factors. They include parent firm's characteristics (Geringer & Hebert, 1989; Blodgett, 1991; Werner, 2002), strategies, and local uncertainties (i.e. Parkhe, 1996; Vryza, 1997; Chalos & O'Connor, 1998; Lyles et al., 2000; Calantone & Zhao, 2001). These issues will be analyzed further in the articles.

In summary, this section has discussed three dimensions of IJV control in detail. These three dimensions of IJV control will be used as the IJV control structure when discussing the determinant factors of IJV control through out the articles in this dissertation. They are also used when investigating the relationship between foreign parent control and IJV performance. The following chapter will expand on about the methodology of the present dissertation including research strategy, data collection, and data analysis.

3 RESEARCH METHODOLOGY

This chapter first explains the research strategy of the dissertation. Then it elaborates on the data collection process, and the measurement of variables. Finally, it deals with the mythology of the data analysis.

3.1 Research strategy

The present dissertation has with a clear purpose of discovering things in a systematic way (Saunders, Lewis, & Thornhill, 2009) and of developing useful knowledge to support organization problem solving in the field (Huff, Tranfield & van Aken, 2006) and is based on logical relationships and not just on beliefs (Ghauri & Gronhaug, 2005). The study employs a quantitative approach to conducting the empirical part of the study because it is helpful when trying to develop knowledge such as cause and effect thinking, reduction to specific variables, hypotheses and questions, use of measurement and testing (Creswell, 2003). In addition, a quantitative approach is particularly suitable for the present dissertation because this approach works best to identify factors that influence an outcome (i.e. here factors that affect control and performance), the utility of an intervention (i.e. here environmental factors), or understanding the best predictors of outcomes (i.e. here prediction of IJV performance) (Creswell, 2003: 21-22).

In quantitative research, investigators apply research questions and hypotheses to declare the focus of the work and examine the relationships between variables to answer research question and hypotheses (Creswell, 2003). In addition, the present dissertation uses the five sequential stages proposed by Robson (2002) to conduct scientific research namely deducing hypotheses; expressing the hypotheses in operational terms; testing these operational hypotheses; analyzing the results; and confirming or /modifying the theories in accordance with the findings.

Each of the articles in part two of the dissertation consists of theoretical and empirical analyses of factors influencing foreign parent control structures in their IJVs and their relationship to IJV performance. The study of IJV control and performance is highly firm specific and often not available through secondary data. To test the articles' hypotheses requires perceptual data from managers of Finnish parent firms. This type of strategy data cannot be addressed through any secondary data sources (Slater & Atuahene-Gima, 2004)

To collect the required data, a mail survey is used rather than interviews. This is because survey research is a valuable and valid method for conducting research on strategy related issues (Slater & Atuahene-Gima, 2004). In addition, data collected through a survey is to test a given model (Noushi, 2004) and the recent state of research on IJVs has gone beyond clarifying the definition of key constructs and produced mixed finding concerning the relationship between IJV control and its relation to IJV performance (Choi, 2001). To clarify such controversial findings from previous studies and to be able to draw conclusions about the joint venture control, a considerable sample size quantitative study is required.

In addition, the use of a survey approach provides an opportunity to test the existing knowledge in a rigorous manner, and to assess causal relationships (Jick, 1979; John & Phil, 1997). This method permits a description of the overall picture of a phenomenon, problem, or issue by questioning a cross section of a population at specific moments in time (Jesson, 2001). Furthermore, survey research enhances the generalizability of the results from a sample to a population leading to the ability to infer some characteristics and behaviors of the population (Babbie, 1990).

3.2 Data collection

This dissertation is part of a research project focusing on IJV behavior, strategies, partner selection, control structure, and performance of Finnish firms. The target firms and investments were identified firstly from the FDI data-base compiled by the project leader since the late 1980s, and based on press releases on IJVs published in leading business magazines and newspapers. The second major source was the annual reports and websites of the 250 largest Finnish firms and the third was the records of the project leader of his earlier surveys focusing on IJVs and WOS by Finnish firms.

The sample had to meet the following criteria: firstly the IJVs had to operate in the manufacturing sector; secondly they were to be equity IJVs; and thirdly one of the partners in the IJV had to be from Finland. Candidate IJVs were selected only from manufacturing industry because a single industry provides a better degree of control over market and environmental peculiarities and increases the internal validity of a study (Guidice, 2001). For the second point in the criteria, the reasoning is that all equity IJVs have standardized structures, similar management, control mechanisms, and goals (Guidice, 2001). Therefore, the findings will be comparable (Contractor & Lorange, 1988; Park & Russo, 1996).

The third point in the criteria is necessary because by looking at foreign partners from only one country, Finland, the influences caused by national cultural differences and political conditions occurring when foreign partners come from diverse countries is reduced. Besides, this was a prerequisite due to financial restrictions preventing the author from collecting data from different countries. In collecting data for the present study, the author has excluded the viewpoint of local partners. Although, some researchers suggest that consulting local partners is a necessity to consult local partners, Geringer and Hebert (1991) maintain that collecting feedback from both foreign and local partners can be logistically infeasible and quite costly. Moreover, they find a positive correlation between IJV manager's evaluations of performance and that of foreign and local parent companies.

From the resources and the criteria, we identified 340 IJVs qualifying for this study; they were founded by 200 Finnish parent firms since 1988 and in operation at least until 2002. Among these 200 firms, several firms were very difficult to contact either because they had been restructured or gone out of business. While searching for informants, we found that in some firms there was no longer anyone with sufficient knowledge required for the study. This left a total of 161 Finnish parent firms. To maximize ability to answer the questionnaires for the respondents, both postal questionnaire and online web survey are used to gather the data.

The questionnaire is carefully designed based on prior literature and surveys in a manner that is intelligible to respondents (John & Phil, 1997). Most of the items in the questionnaires are derived or adapted from prior studies conducted by Geringer and Hebert (1989), Killing (1983), Schaan (1983), Voris (1993), Mjoen, (1993), Xiansheng (1998), Vaidya (2000), Guidice (2001), Choi (2001) and Chen (2004). The criterion for generating questionnaire items is that the items have to capture the key structures of the study at least twice in previous research (Choi, 2001). In addition, this dissertation adopts questionnaires mainly from these particular studies because first, they all focused on IJV control and its relationship to IJV performance; second the sample selection criteria studied are quite similar of those of the present dissertation; and third, the stated purposes of the questionnaires in these studies are similar to those of the present dissertation in that they seek causal relationships between independent and dependent variables. To ensure content validity, a group of IJV researchers reviewed the initial questionnaire and made suggestions for improvement.

The informants were those managers who were directly involved in the IJV's establishment and operations. They are the most knowledgeable people in the firms to provide accurate data for the study (Slater & Atuahene-Gima, 2004). To enhance the quality of the data, the respondents were contacted by phone in Decem-

ber 2006 to explain the key points of the study and the questionnaires. In exchange for their participation in the study and to ensure accurate responses, the respondents were assured of their anonymity promised a summary report of the findings (Glaister & Buckley, 1999) and participated in a draw for three gifts. After one reminder at the end of January 2007, at the end of February, 54 questionnaires were returned of which 5 questionnaires were not usable.

Thus, the final sample was 49 IJVs including 40 Finnish parent firms. The response rate was 24.84%, which is relatively similar to that of earlier respective studies in Finland (see Larimo & Rumpunen, 2006). The sample size is small but similar to that of Mjoen (1993) with 49 IJVs and Glaister & Buckley (1998b) with 51 IJVs. In addition, this small sample size is acceptable given that the increasingly common use of mail surveys and the intensified pace of globalized business has reduced the willingness of potential participants to respond (Harzing & Noorderhaven, 2006). Characteristics of the sample are presented in **Table 7** below.

Table 7. Characteristics of sample

Years of establishment	1988-1995 45%		1996-2006 55%	
Mode of entry	Acquisitions 53%		Greenfields 47%	
Number of partners in IJVs	Two partners 76%		Three partners 17%	
Intended Duration of IJVs	Indefinite duration 61%	Less than 5 years 22%	More than 5 years 17%	
Distribution of ownership	Finnish minority ownership 41%	Equal ownership 10%	Finnish majority ownership 49%	
Location of IJVs	Developing countries 71%		Developed countries 29%	
Type of IJV products	Industrial products 63%	Consumer products 27%	Both types of products 10%	

As we can see from **Table 7** the majority of Finnish IJVs have two partners, location in developing countries, indefinite duration, and industrial products. In addition, more than half of the amount of IJVs was established through acquisitions and have equal or Finnish majority ownership.

The sample was carefully examined for any systematic response bias using *t*-tests. Respondents and non respondents were compared across their age, size, international experience, and IJV experience. No statistically significant difference was found. Thus, there was no response bias to be found in the final sample.

3.3 Variables

This study adopts measures already established in previous studies on parent control, IJV performance, host country uncertainty, parent strategies implemented for IJVs, parent contributions to IJVs, and parent prior IJV experience .

3.3.1 *Dependent variables*

The primary dependent variables for this study are IJV control and performance. Following prior studies of parent control and IJV performance (Geringer & Herbert, 1989; Hébert, 1996; Xiansheng, 1998; Choi, 2001; Buckley et al., 2005), measures of control and performance are adopted.

Control mechanisms: Measured on a 5 point-scale, the respondents were asked to assess the methods of monitoring and control used in the IJVs. The mechanisms evaluated were.

Formal control: a) Control based on equity share; b) participation in a venture's board meetings; c) appointment of key venture personnel; d) taking part in planning JVs budgets; e) incentive plans for top management; f) financial reports; g) JV general manager participating in parent meetings worldwide; h) Parent-venture face to communication and formal meetings; i) participation in JV's decision-making; j) exercising rights of veto at board meetings.

Social control: k) Informal communication; l) Parent-venture informal socialization, personal relationship (informal phone calls, outdoor activities); m) Parent training of venture managers. Control mechanism is formal if parent firms resort to more on formal mechanisms (such as those from a. to j. with a response value equal or greater than 3. On the other hand, the control mechanism is social if parent firms exercise more on those from point k) to m) with a value from 3 to 5.

Control focus: Measured on a 5 point-scale, the respondents were asked to assess their monitoring and control of the IJVs on the focus areas: a) International marketing; b) Local marketing; c) Domestic sales; d) Human resources; e) Procurement; f) Production; h) Quality control; h) Prices and costs; i) Financing and ac-

counting; j) Research and development; k) Local government relations; l) General management.

Control focus is **narrow** if the parent firms exercise it over some selected areas (from 1 to 3 areas from the above list). On the other hand, control is **broad** if they exercise it over more than 3 of the aforementioned areas or all areas of IJV activity from a) to l).

Control extent: the degree of control which is exercised over the IJVs based on control mechanism and focus. Control extent is **tight** if parent firms exercise more than three control mechanisms and broad control. Control is **loose** if parent firms exercise less than three control mechanism and narrow control.

Performance: was measured on 5 point-scale with 1=“very unsatisfied” to 5=“very satisfied”. Respondents were asked if they were satisfied with the overall performance of the IJV also with its financial performance in the third year after IJV establishment and at the current time. The advantage of using an overall performance measure is that it conveys the idea of how much the IJV has been meeting the parent company’s overall objective, which quite often goes beyond profit maximization (Schaan, 1983; Choi, 2001).

3.3.2 *Independent variables*

The primary independent variables for this study are host country uncertainty, foreign parent strategies implemented for IJVs, partner’s differences, partner’s contribution, and partner’s prior IJV experiences. Following prior studies of the relationship between parent characteristics IJV control and IJV performance (Mjoen, 1993; Voris, 1993; Xiansheng, 1998; Choi, 2001; Guidice, 2001; Chen, 2004), the following measures of independent variables have been adopted:

Uncertainty dimensions: (Perceiving cultural, environmental, and competitive uncertainty) were measured on an ordinal scale from 1= “very high” to 5= “very low”.

Host country uncertainty: is a mean of cultural uncertainty, environmental uncertainty, and competitive uncertainty.

Strategies (motive, importance, focus, competitive) are measured on a 5 point scale, respondents were asked to evaluate their strategies used in IJVs with 1= “not important at all” to 5= “very important”

Management style: is measured on a 5 point-scale with 1= “strongly disagree” to 5= “strongly agree” about the partner’s perceptions of organizational similarity, similar management styles.

Objectives set for the joint ventures: respondents were asked to evaluate if the objectives set for IJVs are different between partners. They are measured on a 5 point-scale with 1= “strongly disagree” to 5 = “strongly agree”.

Partners’ business relatedness: respondents were asked to evaluate how similar their business is to the other partners and the IJVs. It is measured on a 5 point-scale with 1 = “completely different” to 5 = “exactly the same”

Partner contributions: respondents were asked if they are contributors of financial resources, technology, management know how, trademark, key personnel. They are measured on a 5 point-scale with 1 = “very weak” to 5 = “very strong”

Parent firm’s experience in IJVs: respondents were asked to rank their prior IJV experience at the time of IJV establishment from no prior IJV experience, to 1-4 years experience, to 5-10 years experience, to more than 10 years experience.

3.4 Data analysis

The data analysis process was firstly to check the validity of the. The validity of a measure includes content and constructs validity (Churchill, 1991). Content validity is acceptable when the correct procedures are used to develop the measurement instrument (Churchill, 1991). Because all items used in this study had been developed and validated by previous researchers and adapted for used here, there is a strong argument in favor of their content being valid.

Next, construct validity which establishes that the measure captures the characteristic, construct, or trait that it is intended to capture was examined. Construct validity requires that the operationalization of a variable not be broad in scope, otherwise it may capture elements of other variables not intended to be captured, leading to difficulties in interpretation of the results. The construct validity in the present study was obtained by conducting an extensive review of the literature and by using measures that had been developed and used by previous researchers (Johnson, 1997).

Then, Cronbach’s alpha was used to test the reliability of multi-item reflective measures. The results of alpha levels were all above the accepted level of 0.70 (Nunnally, 1978). Besides that, the validity of the present dissertation rests mostly

on the precision and thoroughness with which the construct domain is established and tapped (Cullen et al., 1995). In addition, validity was achieved by grounding the construct item in the literature as well as by the author and colleagues inspecting the items to ensure that they adequately embodied the construct domain.

After the reliability and validity of the data were checked, and following analysis techniques tested in complex situations and with limited sample size in international joint venture research, descriptive statistics (e.g., Glaister & Yu, 1994; Vanhonacker & Pan, 1997; Hennart, Roehl, & Zietlow, 1999; Hennart & Ishii, 2008), correlations, and Chi-square tests (e.g. Bloggett, 1991; Beamish & Inkpen, 1995; Dussauge & Garrette, 1997; Glaister, 1995; Ramaswamy, Gomes; Vieliyath, 1998) were used to test and analyze the data in order to establish the relationship between the independent and dependent variables. The above method has a proven ability to quantify and test hypotheses, measure strength of association, and predict the value of a dependent variable given the level of an independent variable.

The focus of analysis of the present dissertation is summarized in **Figure 6** (see next page). As we can see from **Figure 6**, the present dissertation aims to analyze relationships between influenced factors such as parent strategies, uncertainties in the host countries, differences between partners, and parent firms' contributions and experiences in IJVs, and parent control choices exercised over their IJVs. In addition, the study also investigates about the link between influenced factors, parent control, and IJV performance. Because in each influenced factors (i.e. parent strategies, uncertainties in the host countries, differences in partners, parents' contributions and experiences in IJVs) include several sub-factors (see **Figure 6**), and in addition, parent control structure consists of three different dimensions (see **Figure 6**), in order to realize relationships between influenced factors and the choices of IJV control structures, each influenced factor and its relationship to parent control structure choice, and how this relationship affect IJV performance were examined separately in different article.

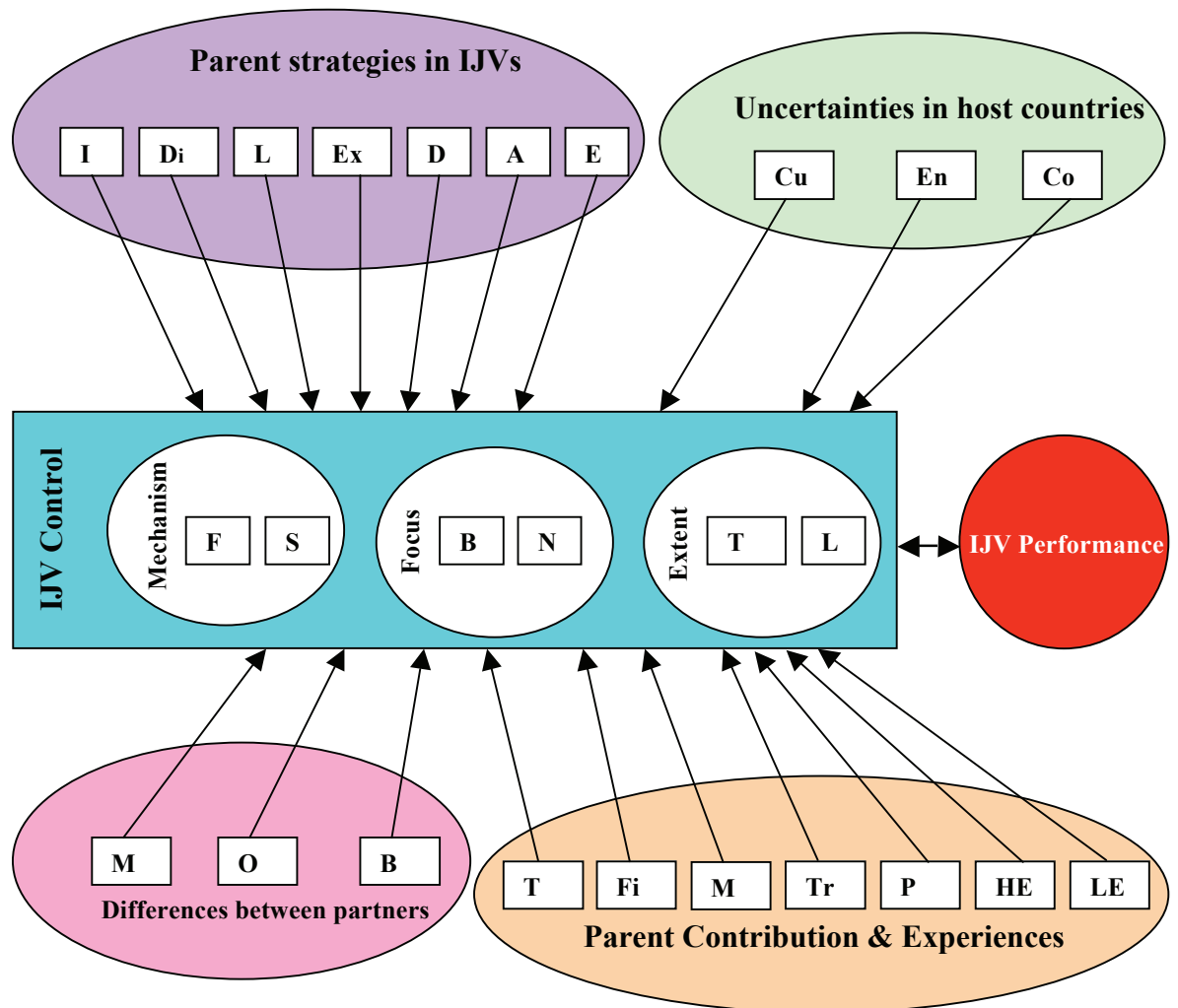


Figure 6. Focus of analysis of the present dissertation

Parent strategies

I: Strategic importance of IJVs
 Di: Differentiation strategy
 L: Low cost strategy
 Ex: Export focus strategy
 D: Domestic focus strategy
 A: Obtaining local access strategy
 E: Gaining economies of scales, scope strategy

Uncertainties in host countries

Cu: Cultural uncertainty
 En: Environmental uncertainty
 Co: Competitive uncertainty

Differences between partners

M: Partner's differences in management style
 O: Partner's differences in objectives in IJVs
 B: Business relatedness between partners

IJV control dimensions

F: Formal control; S: Social control; B: Broad control; N: narrow control; T: Tight control; L: Lose control.

Parent contributions, experiences

T: Technical contribution
 Fi: Financial contribution
 M: Management know-how contribution
 Tr: Trademarks contribution
 P: Trained personnel contribution
 HE: high IJV experiences;
 LE: Less IJV experiences

The article 1 deals with the influence of parent strategies and parent control and IJV performance. The article 2 focuses on the relationship between the uncertainties of the host countries and parent control and IJV performance. The third article elaborates the differences between partners and parent control and IJV performance. The fourth article emphasizes on the analysis of the dynamics between parent control and IJV performance. The fifth article discusses about the relationship between parent contributions and experiences in IJVs and parent control and IJV performance.

4 SUMMARY OF THE ARTICLES

This chapter is a summary of the five articles of the present dissertation. In each article, purposes, main findings, theoretical and managerial contributions are briefly presented.

Table 8. Theoretical approaches used in the articles

<i>Article</i>	Theoretical approach		
	Transaction cost theory	Resources dependence theory	Organizational learning approach
Article 1	X	X	
Article 2	X	X	
Article 3	X		X
Article 4	X	X	X
Article 5	X	X	X

4.1 Article 1 “Foreign Parent Strategy, Control, and International Joint Venture Performance”.

In this article, an important linkage is developed which illustrates the connection between foreign parent strategies, their control and the performance of international joint ventures (IJVs). As such, the article takes a step on from those just concerned about parent firms’ strategies, and moves towards understanding how to realize these strategies through proper control. Parent firms’ strategies refer to strategic motive, importance, focus, and competitiveness. Foreign parent control is conceptualized across three dimensions including control mechanism, control focus, and control extent. The purpose of the present study is to analyze the relationships between foreign parent strategies, control and performance in IJVs. The research puzzle is addressed through the following questions:

- 1) How do foreign parent firms configure the control structure in their IJVs to implement their strategies?
- 2) What are the relationships between foreign parent control structure in IJVs and the IJV’s performance?

The empirical evidence shows that different strategies used in IJVs by foreign parent firms required different control structures. In addition, the firms that adapted control structure in their IJVs according to their strategies were more satisfied with their IJV performance than those who did not. The article contributes to the existing IJV knowledge by proposing a link between parent strategy and controls. In more detail, most foreign parent firms want a high level of control that is consistent with their bargaining power (Calantone & Zhao, 2001). However, the present article suggests that, to succeed in target markets, the foreign parent firms must have an IJV control structure appropriate to their strategies. This finding is consistent with Lynch (1993) and Kumar and Seth (1998) who argued that the IJV control structures reflect the parent firm's strategy. Moreover, this study extends the previous research by specifying what kind of control structure would fit different strategies. More specifically, for the purpose of gaining economies of scale and scope when joint venturing with local firms, the article suggests that the foreign parent firms should focus their control on the most critical issues in IJVs, such as product quality control.

Other than these critical areas, the foreign parent firms can allow the local firms to be in charge of other areas in the IJVs, thus they can reduce the costs associated with an excessive control structure, and at the same time, motivate the local parent firms to utilize their expertise. The foreign parent firms often use the IJV as a base for manufacturing units and then *export* the outputs to other markets. The study points out that it is more efficient for the foreign parent firms to dominate the IJV operation in that case. This is because managers in some countries such as in the Central and Eastern Europe, are often technically proficient, but inexperienced with market oriented management functions, such as strategic planning and marketing mix which are fundamental to successfully exporting to developed markets. Thus, the study suggests that broad and tight control help the foreign parent firms not only to keep the IJV's outputs meeting the international quality standards but also to be able to utilize their advanced export management knowledge. For the foreign parent firms that are focused on the local market, the present study suggests a formal control mechanism is also needed.

For the IJVs that are *strategically important* to the foreign parent firms, broad, formal, and tight controls are likely to be the effective choice. This finding confirms Johnston's (2005) work maintaining that when the subsidiaries are big and play an important role, the parent firms impose progressively more hierarchical, or formal control mechanisms on their subsidiaries. Regarding the *competitive strategy*, for the IJVs which are adapted to a low cost strategy, the parent firms tend to utilize narrow, formal control and loose control in their IJVs. However, when the foreign firms adopt product differentiation as the main competitive

strategy for their IJVs, broad, formal, and tight control may be the most effective to manage the IJVs. Differentiated products are the result of a complex interplay between all the parts of the firm, so that the foreign parent firms need to act as foci for tapping into the resources of the total network.

As a result, intensive control is deemed necessary. Social control mechanisms cannot be used in both strategies because it may take longer to build, and be extremely costly (concerning social events, such as outdoor activities, parties, extensive training, building personal relationship, etc.). The findings support previous studies by Männik (2006) and Whitelock (2007) that parent control is dependent on their strategy. In addition, the finding extends the previous research by Gullander (1976), Männik (2006) and Whitelock (2007) who suggest that an appropriate control structure allows parent firms to integrate the IJV activities with their strategies. This article has specified which kinds of IJV control design structures are suitable for different strategies. On the other hand, the finding contradicts Johnston's argument that when subsidiaries pursue a cost leadership strategy, the headquarters maintain tight control over the subsidiaries' activities (Johnston, 2005: 36).

4.2 Article 2: "Governing for success: The host country uncertainty and the design of foreign parent control in the international joint ventures"

The article develops a model of the international joint venture (IJV) control which deals with the uncertainty measure of the host country. Host country uncertainty is characterized by cultural uncertainty, environmental uncertainty, and competitive uncertainty. Following Geringer and Hebert (1989), Buckley, Glaister, and Husan (2005), parent control is conceptualized across three dimensions- mechanism, focus, and extent. The primary objective of the present study is to build up a framework for managing IJVs from the viewpoint of the foreign parent firms, in their endeavor to cope with uncertainties in the host countries. In order to accomplish this goal, we strive to answer the following research question: *How does host country uncertainty influence the foreign parent firms' choice of control structure in the IJVs?* The research puzzle is addressed through the following questions:

- 1) How do foreign parent firms design their IJV control in order to cope with the uncertainty inherent in the host country?

- 2) What are the relationships between the foreign parent control structure in IJVs and the IJV performance?

The results show that in arenas of high cultural uncertainty and high competitive uncertainty, parent firms preferred to exercise broad, formal, and tight control over their IJVs. In contrast, in arenas of high environmental uncertainty, to react quickly to the changes in the environment, most firms preferred narrow and loose control. The study contributes to IJV control theory by offering a model of linkage between host country uncertainty and parent control. In other words, most foreign parent firms want a high level of control that is consistent with their bargaining power (Calantone & Zhao, 2001).

However, this article suggests that, in order to operate successfully in foreign countries, foreign parent firms need to have a comparable IJV control structure that fits the IJV operating environments. This finding is consistent with the work by Lynch (1993) and Männik (2006), in which the author maintained that the parent control has to agree with the risk and uncertainty of external environments. Previous researchers, for example Birnberg (1998) analyzed the uncertainty which may occur when involved in partnerships but without assessing how firms can cope with it. This article also extends the previous studies by specifying which control structure could be implemented in the IJVs to deal successfully with different kinds of uncertainty. In particular, in high uncertainty countries, parent firms will need to exercise formal, broad, and tight control over their IJVs to achieve high levels of IJV performance. On the other hand, IJVs will perform better when parent firms exercise social, narrow, and loose control in a low uncertainty country.

4.3 Article 3: “Do partners’ differences affect international joint venture control and performance”

The study investigates whether or not partner’s differences influence IJV control and performance. Parents’ differences are categorized into differences in business relatedness, objectives of when entering IJVs, and management orientations. IJV control dimensions are based on the work of Geringer and Hebert (1989) and include control mechanism, control focus, and control extent. This article aims to further analyze the influence of foreign partners’ differences on IJV control and performance. The general research question of this article is “*How do partners’ differences influence IJV control and performance?*” In more detail, the article addresses the questions:

- 1) How do partners' perceived differences in management style, joint venturing objectives, and business relatedness affect their control of IJVs?
- 2) What are the relationships between partners' differences, IJV control, and IJV performance?

The results show that partners' differences have strongly influenced IJV control and thus IJV performance. The results reveal that partners perceiving themselves as highly different from one other require formal, broad, and tight control exercised over their IJVs. The results, in addition, indicate that in the case of high degrees of difference between partners, formal, broad and tight control by foreign partners leads to better IJV performance. In contrast, in the case of low differences between partners, social, narrow, and loose control by foreign partners leads to better IJV performance.

This study provides an empirical framework as an important extension of current joint venture theory on control perspectives. It provides new insights into the way partners cope with internal uncertainty caused by partners' differences, and the resultant joint venture performance. The findings extend the existing research and contribute considerably to the understanding of the phenomenon of international joint venture control

4.4 Article 4: "Parent control dynamics and international joint venture performance"

In recent years, the IJV has become a major strategy vehicle for firms entering international markets; however, they eventually demonstrate a high rate of break down. The international business literature shows that one of the toughest challenges parent firms have to face when entering IJVs is the control issue over the joint ventures. The purpose of this article is to analyze the relationships between foreign parent control and IJV performance during the IJV lifecycle. Parent control in IJVs is conceptualized across three dimensions including mechanism, focus, and extent. As foundational theories, the article uses transaction cost, resource dependence and organizational leaning theories. *The purpose of the article* is, therefore, addressed through the research question:

- (1) what are the relationships between foreign parent control and IJV performance at the formation stage of the IJV lifecycle?
- (2) Why and how do these relationships change at the post formation stage of the IJV lifecycle?

The result shows that the relationship between the control design and its performance is not just one way, but reciprocal and dynamic. With an initial control designed by foreign parent firms, there will be two situations affecting IJV performance. In the first case, when the performance is negative, foreign parent firms will respond to this situation by exercising more control over an IJVs to restore order and make sure that the IJV achieves its planned targets. However, control also brings costs, especially with broad control and tight control. In addition, foreign parent firms may also signal distrust of local parent firms by imposing a host of procedures and paperwork found with formal control and tight control. Therefore, when IJV performance is positive, foreign parent firms may prefer to exercise less control over IJVs to create trust with local parent firms and to reduce costs.

The first contribution of this article to IJV theory is to fill this gap by increasing understanding of the multiple-dimensions of parent control and their influence on IJV performance. In addition, the study is the first to examine *the change of IJV control* during the IJV lifecycle since “how control design of IJVs evolves over time remains unclear” (Zhang & Li, 2001: 342). This is important because it examines organizational process. The research process makes an important contribution because it explains how managers can influence firm performance through organizational control (Chakravarthy & Doz, 1992). In *the relationship between IJV control and performance* the study points out that the conflicting results from previous studies are, perhaps, because they have assumed a monotonic relationship between control and performance (Fryxell et al., 2002).

Taking a step on from this approach, the article proposes that the relationship between IJV control and performance depends on both which stage IJVs are at in their lifecycle, and the results of IJV performance from the previous stage. In particular, this article proposes that when foreign parent firms choose to exercise broad, formal, and tight control at the formation stage of IJV lifecycles, IJV performance is likely to be positive. In contrast, if foreign parent firms choose to exercise narrow, social, and loose control over IJVs at the formation stage, IJV performance is likely to be negative. In addition, foreign parent firms will redesign their control exercised over IJVs over time in accordance with IJV performance.

In the post-formation stage, when IJV performance is negative, foreign parent firms need to exercise more control in an attempt to improve performance. When IJV performance is positive foreign parent firms may reduce their control over IJVs in order to reduce the costs associated with control and to promote more trust. This finding is consistent with Zhang and Li’s (2001) research in which they

found that during the IJV development process, IJV performance becomes a motivating force to stimulate the evolution of IJV control design.

The article extends this by specifying the particular control structure needed in such circumstances. In short, we can conclude that there is no optimal choice of IJV controls that are stable over time. Control of IJVs needs to be re-adjusted over time in accordance with IJV performance. As a result, this study may help to explain previous conflictual results on why in some cases dominant control yields better performance, while in others it is less effective than minor control or shared control. This finding contradicts Glaister and Buckley's (1998a) study in which they maintain that the nature of management control does not vary with the development of IJVs.

4.5 Article 5: Foreign parent Contributions, and Experiences on International Joint Venture Control and Performance

Researchers have pointed out that between 30% and 70% of all international joint ventures (IJVs) established eventually break up (Yaheskel et al., 2004; Hennart et al., 1998). Some authors have suggested that control problems are one of the primary causes of IJV failures (Groot & Merchant, 2000). Despite the popularity and importance of IJVs and extensive research in the field, it is suggested that we have a limited understanding of how to manage them (Das & Teng 2001). In particular, most previous studies provide little knowledge about how to control IJVs and the relationship between control structure and IJV performance (Geringer & Hebert, 1989). Furthermore, Geringer and Hebert (1989) and Ramaswamy et al. (1998) proposed that future research should deepen IJV control in terms of mechanisms, extent, and focus. While previous research has not provided evidence directly explaining how parent firms make control structure choices (Groot & Merchan, 2000); it has suggested some possible determinant factors such as parent firms' experience (Peng & Health, 1996; Guidice, 2001) and their contributions (Blodgett, 1991; Yan & Gray, 1994; Isobe et al., 2000). Pangarkar and Klein (2004), and Berrell (2007) suggested that further studies are needed to examine factors that influence IJV control and performance.

This article aims to further analyze the influence of foreign parent firms on the control and performance of their IJVs. More specifically, the article aims to answer the research question: *How do foreign parent firms' contributions and IJV experiences influence IJV control and performance?*

The result shows that in determining foreign parent control structures in IJVs, the *characteristics* of foreign firms play a crucial role at the formation stage of IJVs. Foreign parent firms are likely to exercise broad, formal, tight control over IJVs when: they are the key suppliers of technology for IJVs, and lack international experience. In contrast, foreign parent firms will use narrow, social, and loose control in IJVs if they have experience in foreign markets. The findings confirm that most foreign parent firms want a high level of control that is consistent with their bargaining power (Calantone & Zhao, 2001). On the other hand, in regard to the influence on international experience of IJV control, the finding contradicts the work of Makino and Delios (1996). In their work, Makino and Delios (1996) find that when foreign parent firms accumulate experience about the host country, they become less reliant on local parent firms, and thus exercise more control over their IJVs.

With regard to IJV performance, the results showed that foreign parent firms' contributions and experience directly influence not only IJV control but also IJV performance. In particular, IJV performance is stronger in the cases where foreign parent firms have had more than 5 years IJV experience and exercised narrow, loose, and social control over their IJVs. With foreign parent firms who have less than 4 years IJV experience, IJV performance is higher if foreign parent firms exercise formal, broad, and tight control. As for foreign parent contributions to IJVs, the results indicate that foreign parent firms who have provided essential technology for IJVs are more satisfied with IJV performance when they exercised formal, broad, and tight control over their IJVs.

The present study helps managers to deploy their control structure in their IJVs not only to gain high IJV performance but also to protect their core technology from the risk of appropriation by local parents or leakage to their competitors. In foreign markets, especially those like China, is not unusual for there to be no established system for the effective protection of intellectual and commercial rights. Therefore, when foreign parent firms bring advanced technology into IJVs, to reduce related risks, the study proposes that they should adopt hierarchical or formal control over their IJVs. This will be carried out by establishing specific rules, regulations, and procedures for technological transfer.

In addition, to curb opportunism and prevent unauthorized technology leakage, especially when technology transfer in IJVs involves a high level of tacit knowledge and skill that is not protected by law, this study suggest that foreign parent firms should maintain tight and broad control over their IJVs. Through tight control, foreign parent firms are able to make or approve the key decisions in IJVs. An added benefit is that foreign parent firms are able to keep up to date with what

is happening in their IJV operations through frequent and precise reporting from the IJV management team. Also by utilizing tight control, foreign parent firms send a message to the IJV management team that significant rewards and punishments are definitely linked to the accomplishment or failure to accomplish the desired results as well as to the proper utilization of key technology. Summary of the findings from article 1 to article 5 is presented in **Figure 7**.

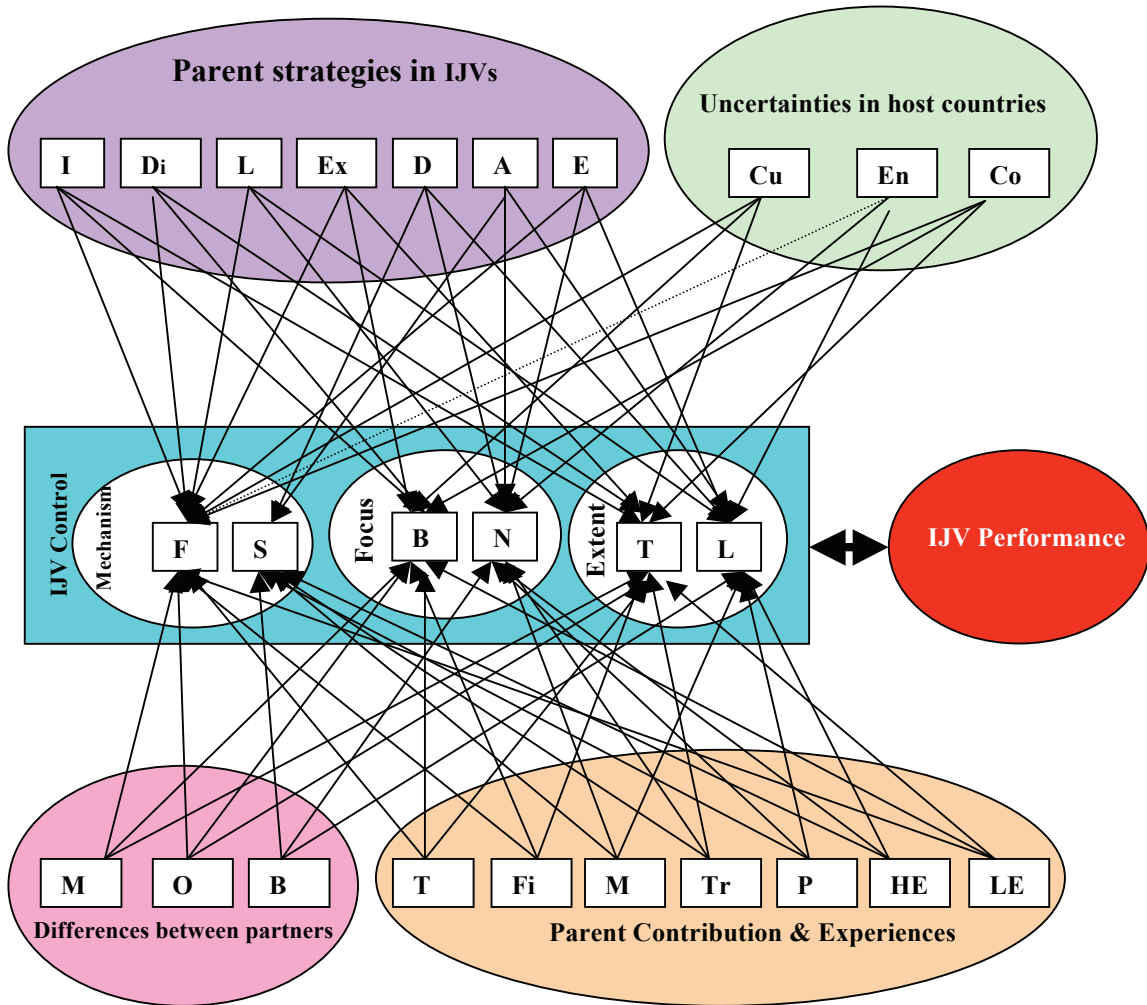


Figure 7. IJV control model

Parent strategies

- I: Strategic importance of IJVs
- Di: Differentiation strategy
- L: Low cost strategy
- Ex: Export focus strategy
- D: Domestic focus strategy
- A: Obtaining local access strategy
- E: Gaining economies of scales, scope strategy

Uncertainties in host countries

- Cu: Cultural uncertainty
- En: Environmental uncertainty
- Co: Competitive uncertainty

Differences between partners

- M: Partner's differences in management style
- O: Partner's differences in objectives in IJVs
- B: Business relatedness between partners

IJV control dimensions

- F: Formal control; S: Social control; B: Broad control; N: narrow control; T: Tight control; L: Lose control.

Parent contributions, experiences

- T: Technical contribution
- Fi: Financial contribution
- M: Management know-how contribution
- Tr: Trademarks contribution
- P: Trained personnel contribution
- HE: high IJV experiences;
- LE: Less IJV experiences

5 SUMMARY AND CONCLUSIONS

5.1 Summary of the present dissertation

IJVs have played and continue to play an important role in the global economy. In joint venturing in foreign markets, parent firm control is not only indispensable for a successful IJV but also to parent firms as well. However, previous research has failed to specify the complete picture of IJV control, leading to controversy surrounding the relationship between parent control and IJV performance.

In addition, when examining the control structures implemented by foreign parent firms in their IJVs, previous research has primarily focused only on one control dimension: the control mechanisms. Thus, another two important dimensions of IJV control - control focus and control extent - have been ignored. This study further investigates the IJV control issue and its relationship with IJV performance, in which IJV control is fully investigated through its three dimensions: control mechanism, control focus, and control extent. Moreover, in exploring the true nature of IJV control, the present dissertation takes the time factor into consideration, or in other words, it investigates foreign parent control and IJV performance during the different stages of the IJV lifecycle.

The present dissertation aims to answer the question *“How do foreign parent firms control IJVs to achieve superior IJV performance?”* The research question is further divided into sub-questions:

- (1) How do foreign parent firms configure the control structure in their strategies? (Article 1)
- (2) How do foreign parent firms design their control structures in order to cope with the host country uncertainty? (Article 2)
- (3) How do partners' perceptions of differences in management styles, joint venturing objectives, and business relatedness affect the control they exercise in IJVs? (Article 3)
- (4) What are the influences of foreign parent firms' contributions and IJV experience on IJV control and performance? (Article 5)
- (5) What are the relationships between foreign parent control and IJV performance during the formation stage of the IJV lifecycle? How do these relationships change during the post-formation stage of the IJV lifecycle? (Article 4)

To answer the research questions, the present dissertation takes a step on previous research that used a single theory only, employing and integrating three different theories, namely transaction cost, resource dependence theory, and the organizational learning perspective. Since each theory considers a different aspect of an organization and each theory has its own strengths and weaknesses, the combination of different theories allows a researcher to see the whole picture of IJVs and results in a better understanding of IJV control.

Supported by these theories, the dissertation analyzes several important factors that determine IJV controls including a foreign parent firm's characteristics, strategies, and host country uncertainty uncertainties. As for foreign parent firms' characteristics, the study concentrates on analyzing the most relevant determinant factors to foreign parent control, being the parent firm's management style, objectives of entering IJVs, their business relatedness, their contributions to IJVs, and IJV experience. For parent strategies, the study focuses on strategic objective of forming IJVs, strategic importance of IJVs, competitive strategies of IJVs, and strategic focus of IJVs on whether to sell the products of IJVs in domestic markets or to export them to international markets. For host country uncertainty, the study stresses on cultural uncertainty, environmental uncertainty, and competitive uncertainty.

Further to the investigation of factors affecting foreign parent control, the present dissertation also focuses on the relationship between foreign parent control and IJV performance. In this relationship, the dissertation examines two avenues of influence: how foreign parent control structure (consisting of three dimensions: focus, mechanisms, and extent) in the formation stage affects IJV performance and how IJV performance in the formation stage, in turn, affects foreign parent control structures in the post formation stage.

5.2 Theoretical implications

The findings have confirmed the efficacy of transaction cost theory, resource dependence theory, and the organizational learning perspective. In particular, the findings from article 2 and article 3 support transaction cost theory (Williamson, 1985, Henart, 1988) in that when IJVs face with high external uncertainty (article 2) and high internal uncertainty, foreign parent firms prefer to exercise more control over their IJVs. The article 5 also confirms transaction cost, and resource dependence theory that when foreign parent firms are the main contributors of critical resources (technology resource and financial resources) for IJVs, they have a greater need for control over their IJVs. The findings from article 4 and 5 support

the organizational learning perspective that organizations learn from their past IJV experience, and apply it to their current IJVs. This is explained by the result that IJVs whose parent firms have prior IJV experience perform better than those whose do not. In addition, IJVs learn during their development. It is evident that in the post formation stage IJV partners have learnt how to work together, and IJV members have learnt how to run IJVs. Thus if IJV performance during the formation stage is positive, foreign parent firms will not need to exercise extensive control over their IJVs.

In determining foreign parent control structures in IJVs, *foreign parent firms' characteristics* play a crucial role at the formation stage. Foreign parent firms are likely to exercise broad, formal, and tight control over IJVs when: they are the key suppliers of technology for IJVs, and lack IJV experience. In contrast, foreign parent firms will use narrow, social, and loose control in IJVs if they have IJV experience. The conclusions here about the effects of a foreign parent firm's international experience on the control structure it utilizes, contrast with the findings of Makino and Delios (1996). In their work, Makino and Delios (1996) find that when foreign parent firms accumulate experience about the host country, they become less reliant on local parent firms, and thus exercise more control over their IJVs.

Most foreign parent firms want a high level of control that is consistent with their bargaining power (Calantone & Zhao, 2001). However, the present dissertation suggests that in order to obtain improved performance, parent firms have to exercise their control over the IJVs in accordance with the **strategies** they apply IJVs. This finding is consistent with Gupta's (1987) that the subsidiaries have a relevance to how parent firms control their subsidiaries.

For IJVs that are *strategically important* to foreign parent firms or highly interdependent with other units of foreign parent firms, broad, *formal* and tight control are likely to be exercised. This finding confirm Johnston's (2005) work which maintains that when subsidiaries are big and play an important role, parent firms impose progressively more hierarchical or *formal* control on their subsidiaries.

Turning to the *strategic focus* of IJV, for export oriented IJVs that must strictly follow international standards and rely more on foreign parents' expertise to market IJV's products abroad, foreign parent firms are likely to exercise broad, formal, and tight control over the IJV. On the other hand, for domestic oriented IJVs which require more involvement, and expertise from local parent firms to serve local markets, foreign parent control over the IJVs should be social, narrow, and loose control.

Regarding *competitive strategy*, for the sake of gaining superior performance, foreign parent firms also need to exercise different control structures over IJVs according to whichever competitive strategy (such as low cost strategy or differentiation strategy) is being pursued. For IJVs that have adopted a low cost strategy, foreign parent firms tend to use narrow, formal, loose control. For IJVs which have adopted a differentiation strategy, foreign parent firms will impose broad, social, and tight control. This finding, on the one hand, extends previous research by Gullander (1976) which suggests that an appropriate control structure allows the parent firms to integrate the IJV's activities with their strategies. The present study has specified what kinds of IJV control structures match which foreign parent firms' strategies. On the other hand, the finding contradicts Johnston's (2005) research that when subsidiaries pursue a low cost strategy, parents maintain tight control over subsidiaries' activities (Johnston, 2005: 36)

In addition to adapting control structures to their strategies, foreign parent firms need to adjust their control over the IJVs according to *local uncertainties* to cope with cultural differences, and frequently changing legislation and policies of local government policies. For foreign parent firms joint venturing in territories displaying large-scale cultural differences from their country of origin, broad, formal, and tight controls can help to reduce uncertainties in the IJV's daily activities. This finding contradicts Meschi (1997), who suggests that cultural differences may never be properly managed unless autonomy is granted to IJVs in their development process.

Moreover, to deal with frequently changing local legislations, IJVs need more flexibility to be able to react promptly to the situations, thus they benefit from less control from their foreign parent firms. This finding contrasts with that of Beamish (1993). Beamish proposed that when IJV's operating environments are affected by an unstable political and economic environment, foreign parent firms are likely to control all the major activities and functions to ensure their own profits and high performance. Further, while previous studies (e.g. Shortell & Zajac, 1988) suggest that parent firms have to adapt IJV structures to changing external environments, the present dissertation extends this by specifying which particular control structure is needed in the face of such changes.

In addressing *the relationship between foreign parent control and IJV performances* this study points out that the conflicting results from previous studies are, perhaps cause by the assumption of a monotonic relationship between control and performance (Fryxell et al., 2002). Moving a step further from on this approach, the present dissertation proposes that the relationship between parent control and IJV performance depends both on which stage IJVs are at in their lifecycle, and

on the results of the IJV performance achieved at the previous stage. In particular, the present dissertation proposes that when foreign parent firms choose to exercise broad, formal, and tight control at the formation stage of the IJV lifecycle, IJV performance is likely to be positive. In contrast, if foreign parent firms choose to exercise narrow, social, and loose control over IJVs, at the initial stage of IJV development, IJV performance is likely to be negative. This finding confirms at of Robins at al. (2002) that, foreign parent firms tend to attempt to exert tight control in the initial stage of forming IJVs.

In addition, foreign parent firms will redesign the control exercised over IJVs in accordance with IJV performance. In the post formation stage of the IJV lifecycle, when IJV performance is negative, foreign parent firms tend to exercise more control over IJVs in an attempt to improve performance. When IJV performance is positive foreign parent firms are likely to reduce their control over IJVs in order to reduce the costs associated with control and promote more trust, already earned during the formation stage through good performance. This finding is consistent with Zhang and Li's (2001) in which they find that during the IJV development process, IJV performance becomes a motivating force to stimulate the evolution of IJV control design.

In short, it can be concluded that there is no optimal choice of foreign parent control structures in IJVs that are stable over time. Control of IJVs needs to be re-adjusted over time according to influential factors such as changing local operating environments and IJV performance. As a result, this dissertation may help to explain the conflicting results of previous studies that in some cases find dominant control yields better performance, while in others minor control or shared control was more effective. This finding contradicts Glaister and Buckley's (1998b) which maintains that the nature of management control does not vary with the development of IJVs.

Finally, the present dissertation proposes a foreign parent control and IJV performance models (**Figure 7** and **Figure 8**) for use with further empirical examples from both qualitative and quantitative data. **Figure 8** shows that at the formation stage of an IJV lifecycle, control structures of foreign parent firms are influenced by the foreign parent firm's characteristics, strategies and local environments. Then these control choices, in turn, determine IJV performance in the formation stage of the IJV life cycle. At the post formation stage, control structures of foreign parent firms are not only influenced by these different factors, as in the formation stage, but also by IJV performance from the formation stage.

As a result, at different points in time the foreign parent firm's choices of control are different due to the changes of influential factors and IJV performance. This

finding is consistent with Zhou, Tse, and Li (2006) who propose that the motivation for organizational change is the performance. The present dissertation extends this by specifying how changes in organization should take place in response to the past performance.

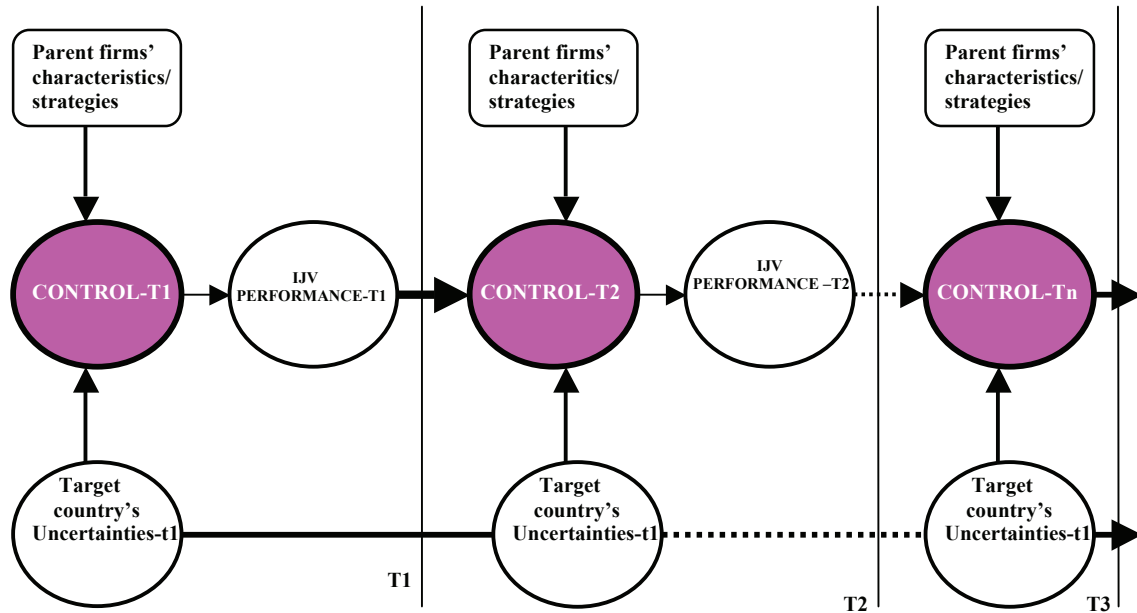


Figure 8. IJV control dynamics

5.3 Managerial implications

With an increasingly important role in the global economy, IJVs will continue to be an important mode of market entry and also a challenge for firms wanting to expand their operations abroad. The present dissertation offers valuable insights into these challenges and successful operations in foreign markets, through suggesting a relevant dynamic control structure for foreign parent firms, since knowing what structure to adopt and how to change it successfully has become critical (Brown & Eisenhardt, 1997; Feldman, 2004).

More specifically, the present dissertation helps managers to deploy a control structure in their IJVs not only to make gains in IJV performance but also to protect their core technology from the risk of appropriation by local parents and from leakage to their competitors. In some countries, there is not yet an established and effective system to protect intellectual and commercial rights. Therefore, when foreign parent firms are the ones who bring advanced technology into IJVs, to

reduce related risks, the present dissertation proposes that foreign parent firms should adopt hierarchical or formal control over their IJVs. This will be carried out by establishing specific rules, regulations, and procedures for technological transfer. Besides, to ensure the best interests for of foreign parent firms, this study suggests that top management position in IJVs should be filled from the foreign parent firms.

In addition, to curb opportunism and prevent unauthorized technology leakage, especially when technology transfer in IJVs involves a high level of tacit knowledge and skills that are not protected by law, the present dissertation suggests that foreign parent firms should maintain tight and broad control over their IJVs. Through tight control, foreign parent firms are able to make or approve the key decisions in IJVs. Foreign parent firms would also be able to keep up to date with what happens in IJV operations through frequent and precise reporting from the IJV management team. Also by exercising tight control, foreign parent firms send a message to the IJV management team that significant rewards and punishments are definitely linked to the accomplishment or failure to accomplish the desired results as well as to the proper utilization of key technology.

The present dissertation offers foreign parent firms suggestions on how to implement their strategies in their IJVs successfully by having a proper IJV control structure. For foreign parent firms that aim to gain access to a local firm's country specific knowledge, the present dissertation suggests that in the formation stage, foreign parent firms should focus their control on some important areas, and let local parent firms have exercise more general control in the IJVs.

Similarly, for the purpose of gaining economies of scale when joint venturing with local firms, the present dissertation suggests that foreign parent firms should focus their control on the most critical issues in IJVs such as product quality control. Beside these critical areas, foreign parent firms could let local firms take charge of other areas in IJVs, thus they can reduce costs associated with excessive control structures at the same time, motivate local parent firms to utilize their expertise.

The present dissertation also suggests that as the size of an IJV increases the risk of opportunism intensifies. This is an especially important issue when IJVs play a very important role in the foreign parent firm's value chain, or impact on a core competence. In these cases, the present dissertation points out the foreign parent firms need to be more involved in the day-to-day operations of the IJV. The present dissertation also specifies that in these cases, foreign parent firms should have more personnel placed in key positions in the IJV so that they can maintain broad and tight control IJV.

Foreign parent firms often use IJVs as manufacturing bases prior to exporting their products to other markets in developed countries. This study points out that in such case it is more efficient for foreign parent firms to dominate the IJV operation. This is because manufacturing IJVs are often located in low cost labor markets such as in China and those of Central and Eastern Europe. In these territories, managers are often technically proficient but inexperienced in market oriented management functions such as strategic planning, and the marketing mix, which are fundamental to successful exporting to developed countries. As a result, the present dissertation proposes that broad and tight control help foreign parent firms not only to keep IJV's outputs meeting international quality standards but also to be able to utilize their advanced export management knowledge.

In contrast to export oriented IJVs, with local market oriented IJVs, the study points out that commitment and cooperation from local parent firms are critical. Local parent firms often bring to IJVs knowledge about local tastes, or local needs, that enable suitable adaptation and probably bring advantages to the IJVs. Besides, local parent firms are expert on the local infrastructure, labor forces, raw materials, and local legislations and have an established relationship with local governments. Thus, the present dissertation suggests foreign parent firms should let local parent firms have more control in local market oriented IJVs so they need just maintain narrow and loose control over their IJVs.

In a similar manner, when foreign parent firms select a low cost strategy as the competitive strategy for their IJVs, the findings of the present dissertation suggest that foreign parent firms can realize this strategy through focusing their control on just some of the most important areas, loosening their control and using formal control. This narrow, loosening, and formal control will help foreign parent firms and IJVs lower their management costs, thereby adding less cost to the final outputs of the IJVs. In addition, the present study also points out that social control mechanisms may take a long time to build up and could incur tremendous costs as with approaches like outdoor social activities, partying, extensive training, and investing in personal relationship.

On the other hand, when foreign parent firms adopt product differentiation as the competitive strategy for their IJVs, the present dissertation suggests that broader control and tight control are the most effective in managing IJVs. IJVs which a differentiation strategy also have a unique production and marketing task as differentiated products are the result of a complex interplay, where all parts of foreign parent firms to act as foci for tapping the resources of the total network. Thus intensive control is necessary. Moreover, the present dissertation suggests that when IJVs aim to produce unique and high quality product, social control is more

effective, especially when IJVs focus on complicated production and marketing work.

Another important implication of the present dissertation is that it points out how foreign parent firms should construct their control in IJVs by considering the IJV's operating environment. This is important for managers in foreign parent firms since the operating environments of IJVs in foreign markets are quite different from those in the parent firms' home markets. In particular, in countries characterized by frequent changes of legislation, and trade policies, this study points out that excessive control from foreign parent firms can be a problematic because they may not be fully aware of the complexity of the environments.

In addition, the present dissertation points out that to react quickly to the changes, IJVs may need to be ready to adapt to changing external environments and be flexible. Since local parent firms are closest to changing environments and therefore have the best knowledge of developing situations, the foreign parent firms should exercise loose control and narrow control over the IJVs. In addition, the present dissertation proposes that in these circumstances, cultural mechanisms or social control will be more effective than formal control- that often has difficulty fitting in with rapidly changing environments.

The final and the most important implication of the present dissertation for practitioners is that the foreign parent control structure exercised over IJVs should not remain rigid during the lifecycle. Foreign parent firms should be more willing to redesign their control structure to fit with local environments and especially to the result of IJV performance from the previous lifecycle stage. However much a foreign parent believes its initial control structure fit its IJV activities, the foreign parent firms need to redesign IJV control structures in the post formation stage when the IJV performance in the previous stage was negative. More specifically, in these cases broader, tighter, and formal control are needed. It is also important to point out that even when IJV performance in the formation stage was positive, a foreign parent's control structure may still need to change. As discussed earlier the change is needed to promote trust and commitment from local firms on the one hand, and on the other, it may reduce the costs associated with control. Table 6 above provides a summary of the findings of the present dissertation. As suggested by many previous researchers, IJV performance is decided by the ability of a foreign parent to manage and control the IJV properly according to the strategies and the changing operating environments.

Another point of interest arising from this study is how managerial factors influence foreign parent control structures in IJVs during the IJV's lifecycle focusing

on parent control in IJVs. The following section analyzes the relationships between foreign parent control and IJV performance.

In short, performance is an important issue in strategic management (Venkatraman & Ramanujam, 1986). Furthermore, both scholars and managers are interested in the impact of a firm's strategies on the outcome of IJV performance (Guidice, 2001). Previous research on the control and performance relationship has been dominated by a static approach (Zhang and Li, 2001). However, in order to understand the complex nature of the control and performance relationship, this study suggests that a dynamic perspective may help to investigate how control dimensions affect performance, and performance, in turn, affects the IJV control decisions of parent firms. In the same vein, previous researchers proposed that "the control system at a relatively young IJV should be viewed as embryonic and should evolve over the life of the venture" (Chalos & O'Connor, 1998: 64).

5.4 Limitations of the present dissertation and implications for further research

The ability to generalize the findings of this dissertation is limited due to a number of reasons. First, this dissertation includes only manufacturing equity IJVs, thus the findings may not generalize to other non equity and service IJVs. Second, small sample is another setback of this dissertation to generalize the findings. This, however, has been noticed getting data (Kogut, 1988) and identifying IJVs is one of the biggest issues in research of this nature (Guidice, 2001). Third, the data of this dissertation is collected through only from Finnish parent firms. Therefore, the findings may not be applicable to other foreign firms which have different cultural and institutional backgrounds such as American parent firms or Japanese parent firms. Fourth, data is collected through single source-the expert managers from Finnish parent firms. The reliance on a single source, however, accepted in IJV research when the informant is regards as a key stakeholders (Ding, 1997).

There are several important research directions that can continue from this dissertation. Researchers have pointed out that trust between foreign parent firms and local parent firms is one of the important factors that influence the control structure foreign parent firms exercise over IJVs (Noorderhaven, 1995; Brouters & Bamossy, 2006; Madhod, 1995; Ring, & Van de Ven, 1994; Inkpen & Currall, 1997). However, the present dissertation excluded this factor because the complexity and controversial nature of the research related to trust would have made the dissertation unmanageable. The issues surrounding control and performance

are already complex, and omitting the trust issue made it possible to investigate deeply and other factors such as parent characteristics, parent strategies and local uncertainties. This trust issue could be one of the future opportunities for further research in that research could focus on how the development of trust between foreign parent firms and local parent firms influences the design of control mechanism in IJVs over time.

In addition to trust, the commitment of local parent firms may influence control redesign during the development of IJVs. Since the present dissertation excluded this, further research could explore the commitment of parent firms via their continuous *ex ante* support and specific investment into IJVs that determine IJV control and performance. Even though the foreign parent firms may have more bargaining power than the local parent firms, due to their advanced technology and management knowledge, the configuration of the IJV control structure often involves interaction with the local parent firms.

In the present dissertation, IJV control structures are commented on solely from the perspective of foreign parent firms. This is due to the fact that collecting feedback from local firms from many different countries demands a lot more time and resources and is thus unfeasible and quite costly (Geringer & Hebert, 1991). Consequently- further research could investigate the determinants of IJV control through the interaction between foreign and local parent firms. Similarly, IJV performance is here measured from the perspective of foreign parent firms. It would be interesting to know if the results would be the same if IJV performance were measured from the perspective of local parent firms and the IJV management teams. Moreover, as IJV operating environments change, foreign parent firms' strategies may also change. Further empirical study using the presented framework to investigate the fit between the foreign parent strategies and the IJV control during IJV's lifecycle may be of great interest. It would also be interesting to know whether the link between the foreign parent strategies and the control structure utilized in the IJVs would be affected by, for example the national cultural background of the foreign parent firms (e.g. France vs. Finland), the types of IJVs (e.g. majority foreign ownership, 50/50 IJVs with a local parent, or minority foreign ownership), or the timing of entering into the IJVs (e.g. early 1980-90s, 1990s-2000, or more recent).

In addition, future research could examine the links between the foreign parent firm's control structure and IJV performance using IJV samples from various generic industrial environments. This would provide valuable insights into whether the findings of the present dissertation differ depending on industry 'characteristics. Furthermore, concerning IJV performance measurement, future

research on parent control and IJV performance using the presented framework could use both objective and subjective measures to capture the whole picture of the issue. Thus, the research would yield more generalizable results. Finally, the present dissertation has provided a framework for the link between foreign parent control and IJV performance during the *IJV lifecycle* which stresses the changes and development process of foreign parent control. Therefore, future research using this framework would benefit from *longitudinal data obtained* through qualitative method with a case study approach, so as to capture the dynamic nature of control in IJVs.

In terms of data analysis methodology, this study analyzes different independent variables in relation to dependent variables separately. A future study with a larger sample size might use more powerful statistical techniques (e.g. structural equation modeling (LISREL)) to analyze how different independent variables affect each other and which of them are the key influencers or determinant on IJV control and performance.

Despite of having some limitations, this dissertation is believed to have undergone a significant effort to expand our knowledge of factors influence parent control in IJVs and their relationships to IJV performance. Although different influenced factors are analyzed separately in different articles, a fit between control structures by foreign parent firms exercised over their IJVs, and influenced factors leads to successful IJV performance.

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Foreign Parent Strategies, Control and International Joint Venture Performance

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Abstract

This paper develops and expands upon an important connection between foreign parent firm strategies, the manner in which they control their international joint ventures (IJVs), and the performance of those IJVs. Parent firms' strategies refer to strategic motives, importance, focus, and competitiveness. Foreign parent firm control is conceptualized across three dimensions including the control mechanism, the control focus, and the extent of control. Our empirical evidence is based on the survey data collected from Finnish firms that established IJVs with local firms in the 1990s. The empirical evidence show different strategies used in IJVs by foreign parent firms required different control structures in IJVs. In addition, the firms that adapted control structure in their IJVs according to their strategies were more satisfied with their IJV performance than those who did not. As such, the paper takes a step further from just being concerned about parent firms' strategies and moves our thinking toward understanding how to realize such strategies through proper control.

Keywords: Strategy, Control, International Joint Venture, Performance

1. Introduction

In the last decades, establishment of IJVs has become a major strategy for firms entering international markets (Ding, 1997; Duan, 2007; Dunning, 1995; Li, 2003; Meschi & Riccio, 2008), and an important strategic approach for coping with global competitive pressure (Kwon, 2008). However, researchers have pointed out that between 30% and 70% of the total number of IJV established eventually break up (Hennart, Kim & Zeng, 1998; Yehekel, Newburry & Zeira, 2004). The literature of international business shows that control is one of the biggest challenges that parent firms face when entering IJVs (Geringer & Hebert, 1991), and plays an important role in IJV successes, or failures (i.e. Groot & Merchant, 2000). Already more than 15 years ago, Geringer and Hebert (1989) proposed that future research should broaden the critical considerations and implications of control in terms of mechanisms, control extent, and control focus. Later on, Raswamy, Gomes, and Veliyath (1998) have also suggested the necessity to examine a wider array of IJV control through in-dept investigations. More recently Barden, Steensma, and Lyles (2005) have added to the debate and suggested that further research is needed to investigate the "fit" between parent firms' strategies and their control systems.

The purpose of the present study is to analyze the relationships between foreign parent strategies, control and performance in IJVs. The research puzzle is addressed through the following questions:

- 1) How do foreign parent firms configure the control structure in their IJVs to implement their strategies?
- 2) What are the relationships between foreign parent control structure in IJVs and the IJV performance?

In the present study, an IJV is regarded as a separate entity formed by a multinational company (MNC) or multinational companies and a local firm or local firms either through greenfield investment or partial acquisitions. In the following sections, we conceptualize the IJV control along three dimensions including mechanism, focus, and extent. Then, we develop hypotheses regarding foreign parent strategies, IJV control and performance. We conclude by pointing out the implications for researchers and managers, and indicate some opportunities for future research.

2. Conceptualization of IJV control

In the organizational literature, management control means the process by which an organization influences its members and units to work in ways that meet the organizational objectives (Glaister & Buckley, 1998). According to Child et al. (2005: 15), control is a central aspect of management, and essential in any system that holds managers accountable for their actions and decisions. The main purpose of control is to attain predictability and critical information on IJV operation through some regulatory means (Makhija & Ganesh, 1997), and thus to safeguard the parent firm's interests. In the present study, the control of IJVs is defined as the influence of the foreign parent firms on the operations of the IJVs (Ding, 1997). Furthermore, researchers have acknowledged that control systems are complex and multidimension (see e.g Das & Teng, 1998; Geringer & Hebert, 1989; Lu & Hebert, 2005). Unfortunately, existing research tends to focus on only one dimension. To be able to capture the dynamic nature of IJV and conduct IJV control research thoroughly, this study adopts the multidimensional approach of control (mechanism, focus, and extent) advocated by Geringer and Hebert's (1989). In this section, these control dimensions are elaborated upon.

2.1 Control mechanisms

Control mechanisms are structural arrangements deployed to determine and influence what an organization's members do (Geringer & Hebert, 1989). Control mechanisms consist of a variety of mechanisms including formal and social controls that are available for firms exercising effective control to protect their interests in IJVs (Geringer & Hebert, 1989; Groot & Merchant, 2000). *Formal control* depends on hierarchies, standards, codified rules, procedures, goals, and regulations that specify desirable *patterns of behavior* (Das & Teng, 1998) aimed directly at protecting the assets of parent firms (Fryxell et al., 2002). Formal control mechanisms help to decrease the potential for opportunisms by controlling the assets through hierarchical means (Mjoen & Tallman, 1997). *Social control* is designed to promote expectations and mutual commitments through which the IJV managers learn to share the common attitudes and knowledge of the parent organization. Social control refers to mechanisms such as personal relations, informal communication, information exchange and training, mentoring, and development of a common organizational culture that foster shared values and norms without explicitly restricting the behavior of the targeted people by those social controls (Schaan, 1983; Das & Teng, 1998; Fryxell et al., 2002).

2.2 Control focus

Regarding the control focus, partners can choose to have a *broad control* focus and attempt to exercise control over the entire range of the IJV's activity, or they can have a *narrow control* that focuses on only one or two areas in IJV activities which they consider the most critical (Geringer & Hebert, 1989; Groot & Merchant, 2000). The most critical areas in IJVs are often: 1) Marketing, sales, and distribution; 2) Procurement; 3) General management and operation; 4) Finance and accounting; 5) R & D; 6) Production and quality; and 7) Human resources (Glaister et al., 2005). Depending on factors such as the parent firm's competencies and the goals of IJV activities, parent firms may focus their control on technology-related or market related activities (Child et al., 2005).

2.3 Control extent

Control extent refers to the tightness of control which is exercised (Geringer & Hebert, 1989). Tightly controlled organizations tend to be strict with respect to their employee's punctuality, and detail oriented, and precise in operation. Tight control can be effected through any mechanism that provides a partner with a high degree of certainty that personnel in the IJV will act as the given partner wishes. According to Child et al. (2005), the tightness of control is reflected in frequent and precise reporting. Controls can be tightened by more intensive training of IJV employees in production and management techniques. These dimensions of IJV control will be used as the IJV control structure when we discuss how foreign parent firms strategies determine the IJV control structure in the following section.

3. Foreign parent strategies and IJV control

Gaining management control over an IJV is one way to ensure that one's strategic objectives are actively pursued, and to actively monitor and curb possible opportunism by one's partner. Johnston (2005) argued that different subsidiary tasks are associated with different levels of parent control. Previous researchers proposed that foreign parent firms entering into IJVs should design their IJV control structure based on their strategic motives, strategic importance (Chalos & O'Connor, 1998), strategic focus (Li, 2003), and competitive strategy (Govindarajan & Fisher, 1990).

However, the existing research does not show any links between the partner's strategies and the choice of the IJV's control system (Groot & Merchant, 2000: 583; Barden et. al, 2005). This section, therefore, attempts to fill in this gap.

3.1 Strategic motives

Previous researchers suggested that the strategic motives of parent firms determine their control in IJVs (e.g. Calantone & Zhao, 2001). Foreign parent firms enter into joint ventures with different motives. According to Harrigan (1985), foreign parent firms form IJVs to generate internal benefits, competitive benefits, and strategic benefits. Kogut (1988) suggests three main motives for IJV formation including cost reduction, strategic behavior, and learning. To find a link between parent strategies and their control within the scope of this paper, we adopt the classification of motives proposed by Makino (1995): 1) accessing the partners' proprietary resources, and 2) achieving economies of scale and scope.

The primary motive for foreign parent firms forming IJV is to *gain access* to a local firm's proprietary resources including both firm-specific knowledge and country specific knowledge. Whilst, local firms may lack management know-how and technology (Luo et al., 2001), they often contribute their country specific knowledge, land, and manufacturing facilities (Killing, 1983). According to resource dependency theory, if the access that local parent firms contributing to the IJVs have is critical to the IJVs success, the local parent firms have a better position from which to negotiate for more control over IJVs (Mjoen & Tallman, 1997). Thus, they leave foreign firms less control in the IJVs. Foreign firms, as a result, acquire their control through social control and by concentrating their control on the areas where they contribute most to the IJVs. Therefore, we expect that:

Hypothesis 1a: Foreign parent firms entering into an IJV to gain access to local parent firm proprietary resources are more likely to use a narrow, social, and loose form of control over the IJV.

Another common motive for a foreign parent firm to enter IJVs with local firms is to *gain economies of scale and scope*. For this purpose, foreign parent firms are often manufacturing firms and they just expect the local parent firms to merely supply them with cheap labor, and existing facilities such as land and/or a factory (Killing, 1983). This contribution by local parent firms can simply help to reduce the production costs of the IJVs (Kogut, 1988). For foreign parent firms entering into IJVs with this motive, the most important issue is the quality of the product of the IJV (Chalos & O'Connor, 1998). In addition, the success of a joint venture depends on the fit between the parent criteria for success and how well the parent control specific activities related to its criteria for success (Schaan, 1983). Thus, foreign parent firms may narrow down their control to focus on the quality issue of the IJVs' output. Furthermore, by focusing their control on some specific activities and loosening control over the rest of the IJV activities for local parent firms, foreign parent firms give incentives for local parent firms more chance to involve in and contribute to the activities of the IJVs. Giving up overall control and maintaining formal control in just some key areas of the IJV also helps to reduce the costs associated with excessive control. This may help to reduce the level of conflict and increase the cooperation between foreign and local parent firms. As a result, we propose:

Hypothesis 1b: Foreign parent firms entering to IJVs with local firms to gain economies of scale and scope are likely to exercise narrow, formal, and loose control over IJVs.

3.2 Strategic importance

An IJV can play an important role in the parent's value chain when it is a vital source for the parent firm's output, or a repository for the parent firm's core competencies (Johanson et al., 2001). Therefore, IJVs may be established to improve the strategic positioning of the foreign parent firms (Glaister & Buckley, 1996). With respect to the strategic importance, researchers (Bartlett & Ghoshal, 1986; Koza & Lewin, 1998) have previously argued that IJV parents do not often deem the partnership to be of equal important in their overall strategic portfolio, and that a partner that has a large strategic interest in an IJV may indeed prefer a broad control. According to Yan and Gray (2001), those firms for which the IJVs are of greater strategic importance than for their partners will have a greater stake in the venture and may negotiate strongly for control. Green and Welsh (1988) pointed out that when the IJVs play a key role in the parent firm's revenue or their inputs supplying, the parent firms will try to maintain such inputs and revenue under their tight control. In the same vein, Hennart (1988) suggested that the parent firms will seek for dominant control over the IJVs or convert these into wholly owned subsidiaries when the IJVs become strategically important to them.

Merchant and Groot (2000) found that when the foreign parent firms had a broader set of objectives for an IJV, their focus on control was broad. In contrast, they also argued that when firms use an IJV to diversify their offerings, they tend to employ a relatively loose control. Boyacigiller's study (1990) found that the greater the interdependence between the IJV and the headquarters, the more U.S. nationals were placed in the high-level positions in the subsidiary to manage the uncertainties. In summary, as suggested by the transaction cost theory, if an IJV is strategically important, the foreign parent firm will protect its position and reduce uncertainty to safeguard its interests. Thus, we propose:

Hypothesis 2: The more important the IJVs are to the foreign parent firms, the more likely the foreign parent firms are to exercise broad, formal, and tight control over them.

3.3 Strategic focus

3.3.1 Domestic focus

Domestic market oriented IJVs are those that direct most of their activities towards the markets (Chalos & O'Connor, 1998) where the IJVs are located, thus commitment and cooperation from the local partners are more important. Because foreign parent firms are probably not familiar with local tastes and local unique customer needs. The knowledge of the host environment provided by the local partners may enable suitable adaptation; and bring advantages to the IJVs (Johnston, 2005). Previous research also points out that less control from the foreign parent firms, and more influence of the local parents, are factors necessary for better performance of IJVs (Li, 2003). This is especially important in those countries such as China where the local governments play an important role in joint venture activities (Beamish, 1993). Information about the local economy, politics, culture and business customs, consumer's demands and tastes, the labor force, infrastructure, raw materials, and other factors required for the operation of joint ventures are likely to be delegated to the local partner (Makino & Delios, 1996).

In addition, Bai, Tao, and Wu (2003) found that if the sales of the IJVs' products are mainly focused on local markets, the control of the foreign parent firms decreases with the need for local marketing knowledge of their products. This is because the IJVs in the countries like China are often a marriage of foreign technologies and local markets. In this context, the marketing expertise for local markets is often an important contribution of the local partners, while the technological sophistication is an equivalent provided by the foreign partners. Therefore, the foreign parents oriented towards the local markets are likely to exercise less control over the IJVs because the resources important to them are obtained with the help of the local partners (Calantone & Zhao, 2001). As a result, we propose:

Hypothesis 3a: In domestic oriented IJVs, foreign parent firms prefer to exercise a narrow, loose, and social control over the IJVs.

3.3.2 Export focus

In some cases the sales of the IJVs are export oriented and the local parent partners often lack competence in exporting, thus it is more efficient for the foreign parent firms to dominate the IJV operation (Li, 2003). This may be because, as in case of managers in the countries of Central and Eastern Europe there is technical proficiency but a lack of experience of market-oriented management functions such as strategic planning, and especially the marketing mix (Filatotchev et al., 1996; Stephan, 2006) which play a critical role in exporting to foreign markets. Thus, to offset the risk of the lack of local managerial competence of local managers, the foreign parent firms may become directly involved in a broad range of the IJV's activities.

In addition to exporting to international markets, the foreign parent firms who often have a competitive advantage in production management (see Liker et al., 1999) have to apply tight and formal control especially over product quality, so that their products meet the international standards and are able to compete in the international markets (Chalos & O'Connor, 1998; Li, 2003). Furthermore, export orientated subsidiaries often face risks related to security and enforcement of contractual export obligations such as timely deliveries and quality standards. Thus we expect:

Hypothesis 3b: In export oriented IJVs, the foreign parent firms prefer to exercise a broad, tight, and formal control over the IJVs

3.4 Competitive strategy

The competitive strategy used in the present study to investigate the dimensions of foreign parent firms' control dimensions over their IJVs in accordance with their competitive strategies, is based on the framework by Porter (1980). He divides competitive strategies into two main forms: 1) the low cost strategy, and 2) the differentiated strategy.

3.4.1 Low cost strategy

Many times, the foreign firms operating in foreign markets often have to adapt their strategies to align with the local consumer's income and therefore, often use a low cost strategy. This competitive strategy is characterized by: 1) vigorously pursuing cost reduction, 2) enforcing all the possible economies of scale, 3) acquiring process engineering skills, or skills needed in order to design and plan efficiently, 4) bring routine to the task environment, and 5) producing a standard, undifferentiated product (Porter, 1980). The main focus of this strategy is on the standard product with the routine task environment or in other words, cost control focus. The foreign parent firms motivate their delegates in the IJVs to measure these costs. Because the outcome is observable under the low cost strategy, the foreign parent firms will try to avoid costs by not engaging in further control, such as social control. Child et al. (2005) suggested that in the case of activities with a measurable output, control can be exercised through formal monitoring systems. Because control incurs both direct and indirect costs (Child, Yan & Lu, 1997), the foreign parent firms, which apply a low cost strategy for their units, gain a higher effectiveness by narrowing down their focus to some of formal control like output control (Govindarajan & Fisher, 1990). In summary we suggest:

Hypothesis 4a: The foreign parent firms prefer to exercise a narrow, formal, and loose control over low-cost strategy oriented IJVs.

3.4.2 The differentiation strategy

Foreign parent firms which adopt this strategy for their IJVs will target producing a unique product. Thus, the IJV should have a unique task of producing and marketing. In this kind of competitive strategy, knowledge management may not be a simple task for foreign parent firms with different subsidiaries. Differentiated products are often the result of a complex interplay between all the parts of the MNCs, thus parent firms may need to act as foci for tapping the resources of the total network (Birkinshaw & Hood, 2000). As a result, a close relationship between parent firms and the IJVs is necessary (Johnston, 2005). Miller (1988) maintains that the task environment of the units which adopted a differentiation strategy is more complex than that those adopting a low cost strategy. To cope with this, the foreign parent firms need to engage more in the IJV operation and thus to impose a broader control on them. Govindarajan and Fisher (1990) suggested that the units which are to manufacture unique and high quality products may gain a higher effectiveness when the parent foreign firms exercise more control over behavior which may be formatted by formal control. In a similar manner, Child et al. (2005) argued that, when IJVs focus on complicated marketing work, the most appropriate option is formal control which is based on behavioral assessments of how the activities are being carried out. Based on the above we expect that:

Hypothesis 4b: Foreign parent firms prefer to exercise a broad, formal, and tight control over the differentiation strategy oriented IJVs.

3.5 Links between the foreign parent firms' strategies, control, and IJV performance

Child and Yan (2003) argued that parent firm control permits the effective use of whatever strategic resources that the parent firms have in the IJVs. O'Donnell (2000) proposes that the fit between subsidiary strategy and the subsidiary control mechanism, such as incentives for subsidiary managers, can help the subsidiary achieve performance objectives. Johnston (2005) studies the relationship between headquarters and subsidiaries, and finds that different subsidiary tasks were associated with different levels of subsidiary autonomy. In other words, as parent firms set different tasks and targets for their subsidiaries they may exercise different levels of control over them. Dymsha (2002) analyzed the successes and failures of IJVs in the developing countries. He pointed out that parent firms which have a marketing oriented strategy emphasizing the product differentiation, segmentation of markets, trademarks and brand names, and promotion and selling will strive to control these activities in the IJVs. Lorange et al. (1986) maintain that through exercising a proper IJV control structure, foreign parent firms can make sure that their strategies are effectively implemented, and their resources are efficiently utilized for enhancing the IJV performance. Thus, we expect that:

Hypothesis 5: The foreign parent firms which adapt their control structures in the IJVs according to their strategies will enjoy a better IJV performance than those that do not.

4. Sample description and measurement

The study here is a part of an on-going research project focusing on IJV behavior, strategies, partner selection, control structure, and performance of Finnish firms. The target firms and investments were identified as follows: 1) The FDI data base collected by the project leader starting from the late 1980s based on press releases regarding IJVs published in several Finnish business magazines and newspapers, 2) Annual reports and websites of the 250 largest Finnish firms as reported by the leading business magazines, 3) based on the earlier surveys focusing on IJVs and wholly owned subsidiaries of Finnish firms conducted by the project leader. From the resources, we identified 340 IJVs qualifying IJVs formed by Finnish firms since 1985 and in operations at least until 2002. The qualifying 340 IJVs involved 250 Finnish parent firms. Of those 250 firms, several firms were very difficult to contact either because they had been restructured or gone out of business. The aim of contacting the firms was primarily to identify the best informants. In some firms there was no longer anyone employed with sufficient knowledge required to inform. This left a total of 200 Finnish parent firms. Due to time and cost constraints a postal questionnaire and online web survey were used to gather the data.

The participants were those managers who directly involved in the establishment and operations of the IJVs. To enhance the quality of the data, the respondents were contacted by phone in December 2006 to explain the key points of the study and the questionnaires. In exchange for their cooperation with the study and to provide motivation and accurate responses, the respondents were assured of anonymity and were promised a summary report of the findings and also participated in a draw for three gifts. After one reminder at the end of the January 2007, at the end of February, 54 questionnaires were returned, from which 5 questionnaires were unusable. The final sample was 49 IJVs, a response rate of 24,84 % which is similar to that of earlier respective studies in Finland (see Larimo & Rumpunen, 2006). The sample was carefully examined for systematic response bias using t-tests. Respondents and non-respondents were compared across their age, size, international experience, and IJV experience. No statistically significant difference was

found. Thus, there was not response bias to be found in the final sample. After taking out the uncompleted questionnaires, the final sample related to 49 IJVs.

Among these IJVs, 45% were established in 1988-1995, and 55% in 1996-2006; 53 % through acquisitions, and 47% through greenfield investment; 76 % involved 2 partners and 24 % involved 3 partners; 61% were established with indefinite duration, 22% with a duration of less than 5 years, and 17 % stated to have a duration of more than 5 years; 41 % had a degree of Finnish ownership of between 10%-49%, 10% had equal ownership, and 49 % had Finnish majority ownership at establishment; 71% were located in emerging economies, and 29% in developed economies; 63% dealt with industrial products, 27 % with consumer products, and 10 % offered both consumer and industrial products.

All three control dimensions were measured with a 5 point-scale. Based on the list of different mechanisms and focus areas provided, the respondents were asked to assess their 1) method of monitoring and control, and 2) their focus of monitoring and control (Cronbach's Alpha=0.92). The measurement of strategies used by parent firms in IJVs was based on a 5 point-scale with 1= "not important at all" to 5= "very important" where Cronbach's Alpha = 0.95. The measure of IJV performance was also based on a 5 point-scale, the respondents were asked if they were satisfied with IJV performance on both financial and total performance scales with 1= "very unsatisfied" to 5= "very satisfied" where Cronbach's Alpha = 0.94.

5. Results

The empirical data has been analyzed based both on descriptive statistics and on testing statistics. In order to test hypothesis 1 to 4, a correlation matrix including parent strategies and different control structures has been computed. The results are shown in table 1.

5.1 Parent strategic motive and IJV control

Of 49 respondents, 18 mentioned their main strategic motive in entering to IJVs to be gaining access to local firms, and especially their management skill set. Of these 18 respondents, almost 90% exercised narrow control, over 80% exercised loose control, and almost 80% exercised social control over their IJVs. In addition, table 1 shows statistically positive correlations between this gaining access strategy and narrow, social, and loose control structures. Thus, the result supports the hypothesis 1a: when foreign parent firms enter into IJVs to access local firms' resources, they prefer more social, narrow, and loose control over their IJVs. There were 31 firms who mentioned their main motive of entering IJVs to be to gain economies of scale. Of these 31 firms, more than 80% of foreign parent firms used formal control, and about 70 % of parent firms used narrow and loose control with their IJVs. Table 1 also shows statistically positive correlations between a strategy directed towards gaining economies of scale and scope and narrow, formal, and loose control structures. Thus, the result supports hypothesis 1b: foreign parent firms prefer formal, narrow, and loose control when they enter IJVs to gain economies of scale and scope.

5.2 Strategic importance of IJVs and IJV control

When asked to consider the strategic importance of their IJVs, 32 respondents mentioned that IJVs are strategically very important for the parent firms. Of these 32 responses, almost 85% of the companies concerned exercised formal control, and about 75% were found to exercise broad and tight control over their IJVs. In addition, table 1 shows statistically positive correlations between strategic importance and broad, formal, and tight control structures. Thus the result supports hypothesis 2 that the more important the IJVs are to the parent firms, the more likely it is that the foreign parent firms exercise more formal, broad and tight control over their IJVs.

5.3 Parent firm strategic focus and IJV control

There were 26 respondents who mentioned that the strategic focus in their IJVs was on exporting to other markets, and 23 respondents mentioned their focus on the domestic markets. Within the group of 26 respondents focused on export, 17 respondent firms (65%) exercised broad control over their IJVs and 21 (80%) respondent exercised tight control over their IJVs, and further 22 (85%) of foreign firms exercised formal control. Table 1 shows statistically positive correlations between export focus strategy and a broad, formal, and tight control structure. Thus, the result supports hypothesis 3b that IJVs with an export focused strategy, foreign parent firms prefer to exercise broad, tight and formal control over their IJVs. There were 23 respondents who described their strategies as being domestically focused. Among these, 19 (82%) exercised formal control, 8 (35%) employed narrow control, and 10 (43%) used loose control in their IJVs. Table 1 does not show any statistically significant relationship between domestic focus strategy and narrow, social, and loose control. Thus the result does not support hypothesis 3a.

5.4 Parent firm strategic competitiveness and IJV control

Twenty-one respondents mentioned that they implemented a low cost strategy, and 28 respondents mentioned that they applied a differentiation strategy in their IJVs. Among the 21 respondents with a low cost strategy, over 80 % exercised formal, narrow, and loose control over their IJVs. Table 1 shows statistically positive correlations between low cost strategy and formal, narrow, and loose control structures. Thus, the result supports hypothesis 4a that foreign parent

firms prefer to exercise formal, narrow, and loose control over low cost oriented IJVs. Among the 28 respondents who employed a product differentiation strategy more than 80% exercised broad control and formal control, and over 75% respondents applied tight control to their IJVs. In addition, Table 1 shows statistically positive correlations between the differentiation strategy approach and broad, formal, and tight control. This result supports hypothesis 4b that foreign parent firms prefer to exercise broad, formal, and tight control over their differentiation strategy IJVs.

Table 1 about here

5.5 Parent firm's strategies, control, and IJV performance

There were 22 respondents who answered that their firms have adapted their control techniques according to their strategies. These 22 firms had a mean of total performance rating of 4.1 and financial performance rating of 3.7 (1= "very unsatisfied" to 5= "very satisfied") which indicates a positive relationship between parent firm's adaptation of control systems to their strategies and IJV performance. The remaining 27 firms which did not adapt their control systems to their strategies had a mean result of 2.6 for total performance and 2.5 for financial performance.

In addition, to testing hypothesis 5 statistically, a chi-square test was used. The purpose of the method is to determine how well an observed set of data fits an expected set of hypotheses. The method was used to examine the differences with categorical variables and the relationships between internal factors (e.g. parent strategies) and IJV control structures, and IJV performance. The results of the chi-square test show a strong positive relationship between parent firm's strategic choices, their control structure, and IJV performance (see table 2). Therefore, the results support the hypothesis 5 that supposed that the foreign parent firms which adapt their control structures in the IJVs according to their strategies will have a better IJV performance level than those that do not. It is worth noting that the results support hypothesis 5 based on both performance measures - total performance and financial performance.

Table 2 about here

6. Implications

Our empirical evidence shows that different strategies used in IJVs by foreign parent firms required different control structures. In addition, the firms that adapted the control structure employed in their IJVs according to their strategies were more satisfied with their IJV performance than those who did not. The present study contributes to the existing IJV knowledge by offering a link between parent firm strategy and control. To expand on that, most foreign parent firms want a high level of control that is consistent with their bargaining power (Calantone et al., 2001). However, the present study suggests that, to succeed in target markets, foreign parent firms must have a comparable IJV control structure that fits their strategies. This finding is consistent with Lynch (1993) and Kumar and Seth (1998) who argued that the IJV control structure reflects the parent firm's strategy. Moreover, the newness of this study is the extension of previous research. Although previous research (e.g. Kumar & Seth, 1998; Lynch, 1993) suggested the importance of a compatibility between strategy and control, it failed to point out which control structures are needed for which strategies. This study extends the previous research by specifying which kind of control structure would fit with different strategies. More specifically, for the purpose of gaining economies of scale and scope when committing a joint venture with local firms, the present study suggests that the foreign parent firms should focus their control on the most critical issues in IJVs, such as product quality control. Beside these critical areas, the foreign parent firms can allow the local firms to be in charge of other areas in the IJVs, thus they can reduce the costs associated with an excessive control structure, and at the same time, motivate the local parent firms to utilize their expertise. The foreign parent firms often use the IJV as a base for manufacturing units and then *export* the output to other markets. The present study points out that it is more efficient for the foreign parent firms to dominate the IJV operation. This is because managers in some countries, for example in Central and Eastern Europe, are often technically proficient, but inexperienced with market oriented management functions, such as strategic planning and the marketing mix which are fundamental to successfully exporting to developed markets. Thus, the present study suggests that broad and tight control help the foreign parent firms not only to ensure the IJV's output meets the international quality standards, but also to utilize their advanced management know-how of export best practice.

For the IJVs that are *strategically important* to the foreign parent firms, broad, formal, and tight controls are likely to be the effective ones. This finding confirms Johnston's (2005) work maintaining that when the subsidiaries are big and play an important role, the parent firms impose progressively more hierarchical, or formal control mechanisms, on their subsidiaries. Regarding the *competitive strategy*, for the IJVs which contribute to a low cost strategy, the parent firms tend to use narrow, formal, and loose control methods in their IJVs. However, when the foreign firms adapt differentiation as the competitive strategy for their IJVs, broad, formal, and tight controls may be the most effective to manage the IJVs. Differentiated products are the result of a complex interplay between all the parts of the firm, so that the foreign parent firms need to act as a center for tapping the resources of the total network. As a result, intensive control is deemed necessary. Social control mechanisms can not be used in both strategies because the structure will take longer to build, and be extremely costly (considering social events, such as outdoor activities, parties, extensive

training, building personal relationships, etc.). This finding extends the previous research by Gullander (1976), who suggested that an appropriate control structure allows parent firms to integrate the IJV's activities with its strategies. To expand on that suggestion, this study has specified which kinds of IJV control design structures are most suitable for different strategies. From another perspective, the findings contribute to existing knowledge by countering Johnston's argument that when the subsidiaries pursue a cost leadership strategy, the headquarters maintain tight control over subsidiaries' activities (Johnston, 2005: 36).

Figure 1 about here

7. Suggestions for further research

The present study offers several opportunities for further studies. IJV structure is the result of a negotiation process between foreign and local firms (Kogut, 1988). Because this study excluded the negotiation between foreign firms and local firms for control of the IJVs, further study could investigate the influence of this element on IJV control. In addition, there are other variables that can affect IJV control, such as operating environments (Fey & Beamish, 2000), cultural similarity (Lin & Germain, 1998). These factors also need to be investigated. Since the data collected in the present study is limited to IJVs formed by Finnish firms, further empirical study using the framework of this study could also collect data from different countries in Asia, Europe, and America. Then, the findings would need to be compared in order to provide more generalizable results. Moreover, as the IJVs evolve over time, further study using the presented framework in order to investigate the fit between the foreign parent's strategies and the control structures utilized during the life cycle of the IJVs may be of great interest.

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Table 1. Descriptive statistics and correlations

Variable	mean	SD	1	2	3	4	5	6	7	8	9	10
1. Obtaining local access strategy	4.3	1.05	-									
2. Gaining economies of scale, scope strategy	3.5	0.96	.19	-								
3. Strategic importance	3.2	0.92	.15	.06	-							
4. Domestic market focus strategy	3.0	0.92	.13	.23	.21	-						
5. Export focus strategy	3.6	0.95	.11	.20	.25	.01	-					
6. Low cost strategy	3.2	0.94	.24	.27	.09	.25	.09	-				
7. Differentiation strategy	2.5	0.84	.21	.05	.17	.13	.04	.03	-			
8. Control structure 1 (B,F,T)	3.9	0.93	.21	.09	.49**	.15	.58**	.23	.47***	-		
9. Control structure 2 (N,S,L)	3.1	0.92	.64**	.55	.12	.21	.08	.42	.13	.04	-	
10. Control structure 3 (N, F, L)	2.2	0.95	.15	.46**	.09	.11	.10	.62***	.14	.19	.02	-
11. Control structure 4 (Others)	2.4	0.72	.10	.07	.12	.17	.08	.13	.08	.04	.10	.02

N = 49 * p < 0.1 ** p < 0.05 *** p < 0.01 B: broad, N: narrow, F: formal, S: social, T: tight, L: loose

Table 2. Relationship between parent strategies, control and IJV performance based on chi-square test

Hypothesis	Control	Performance	χ^2	DF	Decisions
Strategic Motive					
H1a: Gaining access to local firm proprietary resources	N,S,L	+	13.92	5	significant at 0.025
H1b: Gaining economies of scale and scope	N,F,L	+	12.30	5	significant at 0.05
Strategic importance					
H2: IJVs are very importance to foreign parent firms	B,F,T	+	16.05	5	significant at 0.01
Strategic Focus					
H3a: Domestic focus	N,F,L	+	15.90	5	significant at 0.01
H3b: Export focus	B,F,T	+	13.79	5	significant at 0.025
Competitive Strategy					
H4a: Low cost strategy	N,F,L	+	12.21	5	significant at 0.05
H4b: Differentiation strategy	B,F,T	+	12.01	5	significant at 0.05
Control & Performance					
H5: Control structures fit with strategies leading to positive performance	CS1; CS2; CS3	+	16.52	5	significant at 0.01

CS1: Control structure 1 (B,F,T), CS2: Control structure 2 (N,S,L), CS3: Control structure 3 (N,F,L)

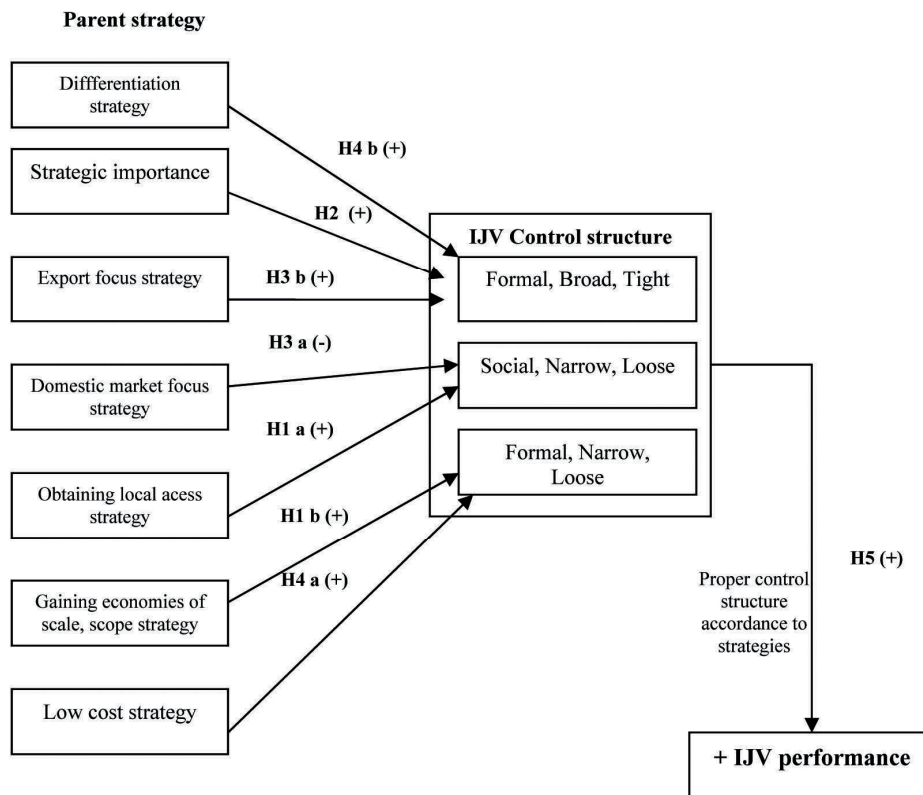


Figure 1. Relationships between foreign parent strategy, control, and IJV performance

Appendix 1

Measurement of variables

Control dimensions**Control mechanisms***Formal control*

- a. *Appointment of key venture personnel*
- b. *Participation in the venture board meetings*
- c. *Incentive plans for top management*
- d. *Financial reports*
- e. *Exercising veto rights at the board meetings*
- f. *Taking part in JV's budgets*
- g. *JV general manager participates in parent worldwide meetings*
- h. *Parent-IJV face to face communication, formal meeting*
- i. *Participation in JV's decision making*
- j. *Control based on equity share*

Social control

- k. *Feedback*
- l. *Parent-venture informal socialization (informal phone call, outdoor activities)*
- m. *Parent training of venture managers*

Control focus

- a. *International marketing*
- b. *Local marketing*
- c. *Domestic sales*
- d. *Human resources*
- e. *Procurement*
- f. *Production*
- g. *Quality control*
- h. *Prices and costs*
- i. *Financing and accounting*
- j. *Research and development*
- k. *Legal or local government relations*
- l. *General management*

Control extent

degree or tightness of control which is exercised on the venture based on control mechanisms and control focus

Measured on a 5 point-scale, the respondents were asked to assess their method of monitoring and control of the IJVs. Control mechanism is formal (F) if the parents exercise control more on formal mechanisms (from a. to j. with responses value from 4 to 5). On the other hand control mechanism is social (S) if parents exercise control mechanisms more on k. to m. (with response value from 4 to 5).

Measured on a 5 point-scale, the respondents were asked to assess the focus areas of their monitoring and control of the IJVs. Control focus is broad (B) if parents exercise control on all or almost all the areas from a. to l. (with response value from 4 to 5). On the other hand, control focus is narrow (N) if the parents exercise control on less than 3 areas (with response value from 4 to 5).

Control is *tight* (T) if parent firms exercise more than three control mechanisms and broad control over the IJVs. Control is loose when parent firms exercise less than 3 control mechanisms and narrow (N) control

Strategies**Strategic motive:**

- Access to local firm resources
- Achieving economies of scale

Strategic importance**Strategic focus**

- Domestic focus
- Export focus

Competitive strategies

- Cost leadership
- Differentiation

Measured on a 5 point-scale, respondents were asked to evaluate their strategies used in IJVs with 1= "not important at all" to 5= "very important"

Performance

- Financial performance
- Total performance

Measured on a 5 point-scale, respondents were asked if they satisfied with IJV performance on both financial and total performance with 1= "very unsatisfied" to 5= "very satisfied".

Governing for success: The host country uncertainty and the design of foreign parent control in international joint ventures

Huu Le Nguyen and Jorma Larimo¹

Abstract In this paper we develop a model of the international joint venture (IJV) control which deals with the level of uncertainty of the host country. The host country uncertainty is characterized by cultural, environmental, and competitive uncertainty. Following Geringer and Hebert (1989); Buckley, Glaister, and Husan (2005), we conceptualized foreign parent control across three dimensions including mechanism, focus, and extent. Our empirical evidence is based on the survey of Finnish firms that established IJVs with local firms in the 1990s. The results show that foreign parent firms tend to exercise more formal, broad, and tight control over their IJVs when they perceived high cultural uncertainty and high competitive uncertainty in the host countries. On the other hand, they prefer formal, narrow, and loose control over their IJVs in cases of high environmental uncertainty. In addition, the firms that exercise broad, formal, and tight control in high uncertainty countries and narrow, social, and loose control in low uncertainty countries were more satisfied with their IJV performance. Finally, we conclude the paper by discussing the implications of our findings and directions for further research on IJVs.

Keywords

Foreign firms, host country uncertainty, international joint venture control

1 Introduction

In the last several decades, international joint ventures (IJVs) have become a major strategy for the firms entering in international markets (Dunning, 1995).

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The international business literature shows that one of the biggest challenges that the parent firms face when entering IJVs is the control issue over the venture's activities (Anderson & Gatignon, 1986; Geringer & Hebert, 1991; Groot & Merchant, 2000). This is because while participating in a voluntary cooperative relationship in the IJVs, the foreign parent firms are exposed to the risk of opportunism (Zhang & Li, 2001). Researchers have pointed out that the IJVs eventually break up at a rate of 30% to 70% of their total numbers (Geringer & Hebert, 1991; Yeheskel, Newburry & Zeira, 2004; Hennart et al., 1998). Insufficient control may translate into the leakage of knowledge, or proprietary components and capabilities to the outside group (Geringer & Hebert, 1989), or the loss of the competitive advantage in favor of the other parent (Hamel, 1991) or some other competitors (Reich & Mankin, 1986). Despite the popularity and importance of the IJVs and the extensive research in the field, the understanding of their functioning is rather limited (Das & Teng 1998). For that matter, Geringer and Hebert (1989) and Ramaswamy, Gomes, and Veliyath (1998) proposed that future research should deepen the IJV control debate in terms of mechanisms, control extent, and control focus. Additionally, another avenue of research may be to focus on the foreign parent firm's adaptation of their control in response to the IJV's operating environment (Yan & Zeng, 1999; Zhang & Li, 2001; Barden et al., 2005: 170).

The primary objective of the present study is to build up a framework for the managing of IJVs from the viewpoint of the foreign parent firms, in their endeavor to cope with uncertainties in the host countries. In order to accomplish this goal, we strive to answer to the following research question: **How host country uncertainty influences the foreign parent firms' choice of control structure in the IJVs?** The research puzzle is addressed through the following questions:

- 1) How do foreign parent firms design their IJV control in order to cope with the host country uncertainty?
- 2) What are the relationships between the foreign parent control structure in IJVs and the IJV performance?

The first research question would enable us to analyze the link between the foreign parent control design in their IJVs and the host country uncertainty. It inquires into what control structures, in terms of mechanism, focus, and extent, is needed to respond to uncertainty. The host country uncertainty can be defined in terms of cultural uncertainty, environmental uncertainty, competitive uncertainty, and behavioral uncertainty. The second research question investigates whether the foreign parent control structure influences the IJV performance.

The issue of uncertainty in the host country is not new in the international business literature. However, it has not been studied exhaustively. Most studies related to uncertainty issues in the host country focus on the choice of entry strategy by the foreign firms such as those by Erramilli et al. (1996), Delios and Henisz (2000), Brouthers et al. (2003), Kontkanen (2006), Sanchez-Peinado and Pla-Barber (2006); on the governance structures in strategic alliances like those of Chen and Chen (2003); or on the headquarters' behavior such as Lang and Lockhart (1990). In IJV studies, Taco and William (2004) reviewed ten major journals

for a period of 15 years between 1988 and 2003, and identified 388 IJV studies. Among these, there were a few studies researching control (15/388), while most IJV studies focused on the entry mode strategy (57/388), the partner learning (39/388), and the partner selection (28/388). After carefully reviewing the IJV literature in the major international business journals using the most significant data sources such as *Elsevier-Science Direct*, *AIB Inform-Proquest Direct*, *EBSCO*, *Emerald*, *JSTOR*, and *Blackwell synergy*, we reached the conclusion that no study has dealt with the IJV control designed to cope with the host country uncertainty properly. Among those studies discussing about uncertainty in joint venturing, Birnberg (1998) attempted to explain the link between IJV interdependency and uncertainty. He suggested dealing with uncertainty solely through a formal contract. Similarly, even though the environmental uncertainty was mentioned in Kumar and Seth's work (1998), it was limited to the link between environmental uncertainty, IJV strategic interdependence, and control mechanisms. These few studies did not analyze the uncertainty in the host country thoroughly and have ignored the multidimensional aspects of control, and our aim is to fill in this gap. In the present paper, an IJV is regarded as a separate entity located in a foreign country formed by one (or more) MNC (s) and one (or more) local firm (s) through either greenfields, or partial acquisitions. Uncertainty refers to the difficulty or inability to predict the environment (Miller, 1992), or to the unpredictability of changes of some factors (Brouthers, Brouthers, & Werner, 2003). Host country uncertainty in this academic enterprise refers to the following factors: cultural uncertainty, competitive uncertainty, and environmental uncertainty.

In the following sections, we conceptualize the IJV control along three dimensions control mechanism, focus, and extent. Subsequently, we develop several hypotheses regarding the foreign parent control structure in their IJV and the host country uncertainty. Eventually, we discuss our data methodology and present the main results of our survey. Finally, we conclude the paper by pointing out the implications for researchers and managers, and indicate some opportunities for future research.

2 Conceptualization of the IJV Control

In this section, we first review the key points of IJV control. Second, we elaborate three dimensions of the IJV control: control mechanism, control focus, and control extent, which is based on the work of Geringer and Herbert (1989).

2.1 Definitions of Control in IJVs

In the organizational literature, management control refers to the process by which an organization influences its members and its units to work in ways that meet the organizational objectives (Glaister & Bluckley, 1998). According to Child et al. (2005:15), the control is a central aspect of the management, and essential in any system that holds the managers accountable for their actions and decisions. Ouchi (1977: 95) suggested that “control can be conceptualized as an evaluation process which is based on the monitoring and evaluating of behavior or of outputs”. Thus, the organizational literature emphasizes how control can be used to manage individuals and subunits. The management control in IJV is complex because there are two or more parties involved (Geringer & Hebert, 1989). In this paper, the control of IJVs is defined as the influence of the foreign parent firms on the IJV operations. Furthermore, researchers have acknowledged that the control systems are complex and multidimensional (see e.g. Geringer & Hebert, 1989; Glaister, 1995; Kumar & Seth, 1998; Raswamy et al., 1998; Das & Teng, 1998; Buckley et al. 2005; Lu & Hebert, 2005). This study adopts the multidimensional approach of control developed by Geringer and Hebert’s (1989). In the following, these control dimensions are elaborated. Key empirical studies made in 1995-2007 are summarized in Table 1.

2.2 Control Mechanisms

In general, the control mechanisms are structural arrangements deployed to determine and influence what the members of the organization do (Geringer & Hebert, 1989; Fryxell et al., 2002). The control mechanisms consist of a variety of instruments including formal and social controls that are available to firms for exercising effective control over their members (Behrman, 1977; Friedman & Bequin, 1971). *Formal control* depends on hierarchies, standards (Perrow, 1972), codified rules, procedures, goals, and regulations that specify desirable patterns of behavior (Das & Teng, 1998). These instruments of formal control are usually agreed upon and imposed by both the foreign and local parent firms (Fryxell et al., 2002). The noteworthy control mechanisms are ownership, the board of directors, the appointment of key personnel, the planning and approval process for capital budgeting and resource allocation, and the lay down procedures and routines for IJVs (see e.g. Makino, 1995; Lu & Hebert, 2005). In turn, *social control* is designed to promote expectations and mutual commitments through which the JV managers learn to share the common attitudes and knowledge of the organization (Nonaka & Takeuchi, 1995). Social control refers to various mechanisms such as informal communication, information exchange and training, personal relation, mentoring, and development of a common organizational culture. These mechanisms foster shared values and norms, without explicitly restricting the behavior of

the targeted people through the means of these social controls (Schaan, 1983; Das & Teng, 1998; Chalos & O'Connor, 1998, Fryxell et al., 2002).

2.3 Control Focus

Control focus can be further divided into broad control and narrow control (Geringer & Herbert, 1989). In control focus, the partners can choose to have a *broad control* focus and attempt to exercise control over the entire range of the IJV's activities, or they can have a *narrow control* focus and confine their control activities to the performance dimensions they consider to be critical (Geringer & Herbert, 1989; Groot & Merchant, 2000). Child et al. (2005) maintain that the parent firms may focus their control on activities related to technology, if they have strong competencies in the field; alternatively, they may concentrate on the market related activities of the IJV, if they are better equipped to assess them. There are also cases when the parent firms may focus their control on both technology and market related activities. The areas of control focus consist of marketing, sales and distribution, procurement, general management and operation, finance and accounting, research and development, production and quality, and human resources. Geringer and Frayne (1990) suggested that one of the crucial areas that determine whether the parent's intended objectives are achieved is their focus on the human resource control. In this paper, the control focus is considered to be broad when it is based on more than two areas, and narrow when it is based on only one or two areas.

2.4 Control extent

The control extent refers to the degree or tightness of control which is exercised on the venture (Geringer & Hebert, 1989). Control extent consists of tight control and loose control. In loose control, the parent firms tend to use only one or two control mechanisms and focus their control on only one or two control areas exercised over the IJVs. Furthermore, in loose control, the parent firms are more flexible in their evaluation of the employees' behavior and their performance. The frequency of reports that the IJV managers have to submit to the parent firms and the meetings between the parent firms and the IJV managers are very few in loose control. In contrast, the tightly controlled organizations tend to be strict with respect to their employee's dress code, punctuality, and cost-consciousness (Hofstede, Neuijen, Ohayv & Sanders, 1990); and detail oriented, precise in operation (O'Reilly, Chatman & Caldwell, 1991). Control is tight from a partner's perspective if that partner has the right to make or approve the key decisions (Geringer & Hebert, 1989). Tight control is manifest also if the IJV staff is held strictly accountable for adhering to a complete set of ascribed actions such as policies and

Table 1. Key empirical studies on IJV control 1995-2007

Author Year	Sample Size	Data Collection	Concept of Control	Focus Area
Glaister (1995)	94	Survey	Mechanism, extent focus	Parent control, IJV autonomy
Hébert (1996)	70	Survey	Extent of control,	Parent control, conflict
Tallman & Mjoen (1997)	102	Survey	Activity control	Equity control, IJV performance
Kumar & Seth (1998)	64	Survey	Mechanisms of control	IJV interdependence, uncertainty, control
Wang et al., (1998)	132	Survey	Mechanisms of control	Parent control, IJV performance
Child & Yan (1999)	67	Survey	Strategy, operation	Resources provision, appointment control
Lyles et al. (2000)	73	Survey	Social, formal control	Partner's trust, know- ledge acquisition, con- trol
Yan & Gray (2001)	90	Survey	Strategy, operations control	Effects of parent control on IJV performance
Fryxell et al. (2002)	129	Survey	Formal, social control	IJV age, partner's trust
Johnson et al. (2002)	51	Survey	Decision-making	Parent control, fairness, commitment
Mohr & Chalos (2003)	110	Survey	Extent of control	Partner's trust, control
O'Connor (2004)	117	Survey	Mechanisms of control	Determinants of control
Choi & Beamish (2004)	71	Survey	Split, shared control	Parent control, IJV performance
Pangarkar & Klein (2004)	76	Survey	Parent strategy	Parent control, IJV performance
Barden et al. (2005)	12	Interviews	Operational control	Partner control, conflict
Buckley et al. (2005)	20	Survey, Interviews	Mechanisms, focus, extent of control	The use of different control in IJVs
Lu & Hébert (2005)	720	Secondary data	Ownership	Parent control, IJV performance
Brouther & Ba- mossey (2006)	8	Interviews	Ownership, IJV managers	Parent control, IJV performance
Duan & Chuan- min (2007)	3	Interviews	Ownership, control mechanisms	Parent control, IJV performance
Whitelock & Yang (2007)	61	Survey	IJV Strategies, operations	Parent control, objec- tives, IJV performance

procedures. Tight control is as well related to highly frequent and precise reporting (Child et al., 2005). Control can be tightened through more intensive training of the IJV employees in production and management techniques (Van Sluys & Schuler, 1994).

3. Host Country Uncertainty and Foreign Parent Control in IJVs

The business environment today is increasingly challenging, the multinationals are facing an ever growing degree of uncertainty and risk. Previous studies indicate that the level of uncertainty strongly influences the design of the control dimensions in the IJVs (Johnson et al., 2002). Govindarajan and Shank (1992) stated that because of the different levels of uncertainty faced by the constitutive units of a multinational, each unit would require systematically different management control systems. According to Kumar and Seth (1998), the host country uncertainty is defined as the complexity and volatility of environmental factors. The uncertainty can be high due to physical and cultural uncertainties, changes in host-government policies, and other specific factors (Pangarkar & Klein, 2004). In the present study, the host country uncertainty refers to the *cultural uncertainty* (see Sanchez-Peinado & Pla-Barber, 2006), the *environmental uncertainty* (Sutcliffe & Zaheer, 1998), the *competitive uncertainty* (see Lang & Lockhart, 1990). To manage the risk involved in operating in these environments, previous researchers suggested that the firms' structure and governance play a decisive role (Drew & Kendrick, 2005). In the following we will discuss how the foreign parent firms design their IJV control in order to deal with the host country uncertainty.

3.1 Cultural Uncertainty

The cultural uncertainty is often a potential source of misunderstandings (Child et al., 2005) and internal uncertainty for the IJVs (Luo et al., 2001). The cultural uncertainty between nations has been evidenced in the differences in managerial practices, values, mind-sets, and norms (Ralston, Gustafson, Cheung & Terpstra, 1993). The foreign and local parent firms differ in management styles, which may result into conflict and incompatible goals (Ding 1997, Hennart et al. 1998; Yan & Gray, 2001). This may lead to bargaining and negotiating between the foreign and local parent firms, which slows down the decision-making process and adds to the bureaucratic costs (Balakrishnan & Koza, 1993; Ding, 1997). The slow down of the decision-making process may lead to the failure of IJVs to respond to the market's frequent changes. Furthermore, the foreign and local parent firms may have differences in routines (Hennart et al. 1998) and may clash over issues like prod-

uct quality, exports, employee wages, or labor policy. These may result in higher uncertainty and higher bureaucratic costs as a result of increased bargaining and negotiating between partners (Ding 1997, Pangarkar & Klein, 2004). According to Egelhoff (1984), the greater the cultural uncertainty between the foreign and local parent firms, the greater the problem is in exercising organizational control over the IJVs. Thus, to avoid the slow down of the decision-making process and the high bureaucratic costs they incur, the foreign parent firms will attempt to obtain a broad, tight, and formal control over the IJVs.

On the other hand, Bai et al. (2003) evidenced that there is less control when the foreign parent firms and their local partners share a similar cultural background. They showed that whenever setting up a joint venture with firms from the mainland China, the partners from Hong Kong, Macau, Singapore and Taiwan share a similar cultural background. They speak the same language, and may even have kinship relationships with the local partners. Under these circumstances, it is easier for them to find other ways to mitigate the expropriated problems and this in turn, determines them to be less reliant on control than other foreign parent firms. Nevertheless, the loose control can also have serious shortcomings, as evidenced by Bai et al. (2003) when citing the spread of profanities among people of the same ethnicity and its negative impact on the future investment opportunities of the perpetrator of the expropriation. Corroborated from the above discussion we can state:

Hypothesis 1: The higher the cultural uncertainty between the foreign and local parent firms, the more likely the foreign parent firms exercise a broad, formal, and tight control over the IJVs.

3.2 Environmental Uncertainty

The environmental uncertainty is defined as the complexity and volatility of the environmental factors. The environmental factors' volatility refers to the unexpected changes in regulation, legislation, judicial decisions, interest rates, or changes in demand (Kumar & Seth, 1998). While operating in foreign countries, for a firm to take full advantage of the opportunities offered by the environments, it has to develop capabilities that keep it in harmony with the environment (Wernerfelt, 1984). Therefore, a different context requires different control mechanisms (Johnston, 2005). This is due to, the frequent and unpredictable changes of the government policy (Child, Markoczy, & Cheung, 1994), and the possibility of collusion, at the IJV level between the local parent firm and the local government, especially when the local parent firm is a state-owned enterprise (Pangarkar & Klein, 2004).

In intricate environments, the excessive control can be problematic because the foreign parent firms may not be fully aware of the operational complexity of the local conditions. Shortell and Zajac (1988) maintained that the IJVs should adapt more readily to the changing external environments. When the IJVs are faced with

a high environmental uncertainty, the foreign parent firms may need to provide the IJVs with more autonomy in decision-making, and to allow them to be more flexible so that to deal with uncertainty in a timely and efficient manner. Calantone and Zhao (2001) suggested that for the parent firms that are unfamiliar with these markets, obtaining local knowledge about the specificities of the environment should be of major concern rather than the control issues. Foreign firms tend to allow local partners to keep a high level of control if they want to learn about unfamiliar markets (Whitelock and Yang, 2007). Peng and Heath (1996) commented that when operating in an unfamiliar environment such as China, the foreign parent firms may need to rely on the local parent firms to secure the needed resources, thus willingly sharing the control with the local parents. This is because they are closest to the changing environments and thus they have the best knowledge in these particular situations (Lewis, 1990).

Furthermore, Kumar and Seth (1998) maintained that at high levels of environmental uncertainty, more complex control appears to be inefficient in managing the relationship between the IJV and its parent. The habitual legislation change and the increasing number of new competitors entering to the markets are quite popular in foreign markets. To stay competitive, the IJVs need to react fast to these changes. Sanchez-Peinado and Pla-Barber (2006) argued that when faced with unexpected changes in demand, the firms tend to adopt a weaker control that allows the IJVs to enjoy greater flexibility in responding to these changes. In addition, according to Lyles et al. (2000), it may be significantly difficult to implement a more formal control in a rapidly changing environment. On the other hand, Guidice (2001) found that social control was not moderated by the degree of uncertainty, and it appeared to be an efficient control mechanism regardless of environmental conditions. Similarly, Drew and Kendrick (2005) argued that in this kind of environment, cultural mechanism could be an effective control mechanism. They maintained that the firms' structures and systems need to be adaptive in managing the risk involved. Thus, as the environmental uncertainty rises, the need for flexibility increases. As a result, we expect that:

Hypothesis 2: The higher the uncertainty of the IJV's operating environments, the more likely the foreign parent firms exercise a loose, narrow, and social control over the IJVs.

3.3 Competitive Uncertainty

The competitive uncertainty refers to the unpredictability of the future state of competition (Miller, 1992). Mjoen and Tallman (1997) maintained that a specialized control design would enable the foreign parent firms to protect their IJVs. In the countries where the competitive uncertainty and the possibility of the new competitors entering to the market are high, the foreign parent firms need to closely monitor the IJV operations through formal control mechanisms so that to protect their own interests and avoid suffering from low performance (Chen, 2004).

According to Calantone and Zhao (2001), the foreign parent firms that face a high pressure from their competitive uncertainty in the host countries where the IJVs are located are likely to increase their control level over their IJVs. On the other hand, in the fast growing markets where the competitive pressure is low or the stakes are big enough for all players, the foreign parent firms may be willing to give the IJVs more flexibility in dealing with other types of uncertainty (Hedlund, 1986). Thus,

Hypothesis 3: The higher the competitive uncertainty, the more likely the foreign parent firms exercise a broad, formal, and tight control over the IJVs.

3.4 Linkage between the Host Country Uncertainty, Foreign Parent Control, and IJV Performance

There is no consensus among researchers about the most appropriate measurement of IJV performance. The measures often used in investigating the IJV performance are either exclusively objective types, or a mix of both objective and subjective types. The indicators of objective measurement are profitability, growth, cost, survival and duration of the IJVs, instability of ownership, and the necessity to renegotiate the IJV contract. The subjective performance measure is the parent firm's overall satisfaction with the IJV.

Child and Yan (2003) argued that the choice of the right control structure permits the effective use of strategic resources that the parent firms have in the IJVs. The strategic choice of a firm is directly linked to its external environments and has a significant implication for the overall performance (Miller and Friesen, 1983). O'Connor and Chalos (1999), when studying the determining factors for success and failure of IJV, suggested that in order to succeed in China, the design of IJV control system has to be adapted to the business environment. The appropriate control structures in their IJVs can safeguard the foreign parents' competitive advantage (Geringer & Hebert, 1989; Hamel, 1991) from competitors. Thus, the foreign parent firms will be more confident and continue supporting their IJVs, support which plays an important role in the IJV performance.

To achieve the overall parent objectives in the IJVs, they have to ponder between the IJV control structure and the risks involved (Lynch, 1993), taking into account the extent of environmental uncertainty and the degree of trust (Birnberg, 1998). Lorange et al. (1986) maintained that by exercising a proper IJV control structure in their dealing with the host country uncertainty, the foreign parent firms can make sure that their strategies are effectively implemented, and that their resources are efficiently utilized for enhancing the IJV performance. Luo (1996) maintained that tailoring the company's strategies to the investment environment represents a necessary condition for attaining a high level of performance. In contrast, the lack of appropriate control to monitor uncertainty can lead to IJV failure (O'Connor and Chalos, 1999). Thus, the foreign parent firms which

adapt their control structures in the IJVs to respond to the specific host country uncertainty will have a better IJV performance than those that do not. As a result of hypothesis 1 and hypothesis 3, we expect that:

Hypothesis 4: Foreign parent firms are more satisfied with IJV performance when they exercise broad, formal, and tight control over the IJVs operating in high uncertainty host countries, and exercise social, narrow, and loose control in low uncertainty host countries.

4. Sample Description and Results

In this section we present the methodology, the sample, and the results of the study.

4.1 Methodology and Measurement

This study adopted a survey research design to fit with the exploratory nature of the research. In the survey, the questions about joint venture control and performance were collected directly from those involved in IJV operations. Furthermore, to be able to generalize conclusions about the joint venture control, a large number of IJVs is needed to be examined. This made direct interviews very costly in terms of time and money and impractical so that to achieve the desired sample size. The measure of variables is based on a 5 point-scale. Concerning control measurement, a list of different control mechanisms, focused on areas of IJV activities were provided, the respondents were asked to evaluate their control with 1= always used to 5= never used. Host country uncertainty: is a mean of cultural uncertainty, environmental, and competitive uncertainty. In each uncertainty dimension, the respondents were asked to evaluate the uncertainty from 1= very high uncertainty to 5= very low uncertainty. IJV performance was measured by parent firm's satisfaction of IJV operation with 1= very unsatisfied to 5= very satisfied. (See Appendix for more details). The methodologies used in this study to analyze the data are description statistics and the Chi-square test. The purpose of the methods is to determine how well an observed set of data fits an expected set of hypotheses. These methods are used to examine the differences with categorical variables and the relationships between uncertainty factors and IJV control structures, and IJV control structure and IJV performance. The method is particularly useful to find out whether an IJV control structure which is made by different elements of IJV control dimensions (formal, social, broad, narrow, tight, and loose) has a normal distribution or the structure has formed under the influence of uncertainty factors. Similarly, the method evidences whether or not IJV performance is influenced by the IJV control structure.

4.2 Sample description

The study herein is a part of an on-going research project focusing on IJV behavior, strategies, partner selection, control structure, and performance of Finnish firms. The target firms and investments were identified as follows 1) the FDI data base collected by the project leader starting from late 1980s based on press releases regarding IJVs published on leading business magazines and newspapers and 2) annual reports and websites of the 250 largest Finnish firms from the leading magazines; 3) based on the earlier surveys focusing on IJVs and WOS by Finnish firms conducted by the project leader. From the resources, we identified 340 IJVs qualifying for our study; they were founded by 200 Finnish parent firms since 1988 and in operation at least until 2002. Among these 200 firms, several firms were very difficult to contact either because they had been restructured or gone out of business. While researching for informants, we found that in some firms there was no longer anyone with sufficient knowledge required for the study. This left a total of 161 Finnish parent firms. Given the time and cost constraints a postal questionnaire and online web survey were used to gather the data. The participants were those managers who were directly involved into the IJV's establishment and operations.

To enhance the quality of the data, the respondents were contacted by phone in December 2006 to explain the key points of the study and the questionnaires. In exchange for their participation in the study and to ensure accurate responses, the respondents were assured of their anonymity and were promised a summary report of the findings and participated in a draw for three gifts. After one reminder at the end of January 2007, at the end of February, 54 questionnaires were returned from which 5 questionnaires were not usable. Thus, the final sample was 49 IJVs including 40 Finnish parent firms. The response rate was 24.84%, which is relatively similar to that of earlier respective studies in Finland (see Larimo & Rumpunen, 2006). The sample was carefully examined for any systematic response bias using t-tests. Respondents and non respondents were compared across their age, size, international experience, and IJV experience. No statistically significant difference was found. Thus, there was not response bias to be found in the final sample. Among the 49 IJVs of the final sample, 45% were established in 1988-1995, 55% in 1996-2006; 53 % through acquisitions, 47% through greenfields, 76 % were with 2 partners and 24 % with 3 partners; 61% with indefinite duration, 22% with less than 5 years, 17 % more than 5 years; 41 % with 10%-49% Finnish ownership, 10% with equal ownership, 49 % with Finnish major ownership at establishment; 71% located in emerging economies, and 29% in developed economies; 63% with industrial products, 27 % with consumer products, 10 % with both consumer and industrial products. The summary of the operationalization of the key variables of the study is presented in the appendix.

4.3 Results

In this section, we discuss the results of empirical test of the hypotheses developed in chapter 3.

4.3.1 Host Country Uncertainty and IJV Control Structure

Most respondents regarded the same countries with the same level of uncertainty like Estonia, Russia, China, etc. Concerning the perception of cultural uncertainty in the host countries, most respondents regard host countries in emerging economies as a high cultural uncertainty (with a mean of 2.06; where 1=very high and 5= very low) and developed economies with low uncertainty (with a mean of 3.21). The most commonly adopted control structure by Finnish parent firms in the reviewed IJVs was formal, broad, and tight control at 26/49 which accounts for 53%. With respect to Hypothesis 1, over 75% of Finnish parent firms exercised formal, broad, and tight control in their IJVs located in high cultural uncertainty countries. Less than 25% of the Finnish firms exercised social, narrow, and loose control in high cultural uncertainty. Based on the chi-square test, $\chi^2 = 15.3$ the result was significant at $p < 0.01$ ($df=5$). Thus, the result supported H1. Regarding the Hypothesis 2, as a whole, the hypothesis was not supported. However, the more detailed analysis revealed that more than 70 % Finnish parent firms exercised narrow and loose control in high environmental uncertainty. However, only 49% of Finnish parent firms exercised social control over IJVs when they perceived a high uncertainty environment. Therefore, the result only partly supports hypothesis 2. In hypothesis 3 over 75 % Finnish parent firms used formal, broad, and tight control in high competitive uncertainty countries. In contrast, when the host countries are characterized with low competitive uncertainty, almost 70% Finnish parent firms exercise more social, narrow, and loose control over their IJVs. Based on the chi-square test, $\chi^2 = 16.7$ the result was significant at $p < 0.005$ ($df=5$) (see table 2). Thus, the results supported H3.

4.3.2 Parent Control Structure and IJV Performance

The performance was measured using seven different subjective measures. Respondents were asked to rank on a 5 point Likert scale, first the weight given and secondly their degree of satisfaction to all seven measures. The two most important measures of performance were total performance and financial performance. In the reviews, the mean of financial performance of IJVs was 3.4 and the total performance of IJV was 3.6. This shows that Finnish parent firms are somewhat more satisfied with the IJV total performance than IJV financial performance. In addition, the findings of the study show that in high uncertainty countries, Finnish

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parent firms are more satisfied with their IJV performance (mean 3.82) when they exercise formal, broad, and tight control over their IJVs than other control structures (mean 2.95).

Table 2. The results of the study based on the chi-square test

Hypotheses			χ^2	DF	Results
Uncertainty dimensions		Control structure			
H1: High cultural uncertainty		Broad, Formal, Tight	15.30	5	significant at 0.01
H2: High environmental uncertainty		Narrow, Social, Loose	9.73	5	not significant
H3: High competitive uncertainty		Broad, Formal, Tight	16.70	5	significant at 0.005
Country uncertainty	Control structure	Performance			
H4: High	Broad, Formal, Tight	+	12.43	5	significant at 0.05
Low	Narrow, Social, Loose	+	15.13	5	significant at 0.01

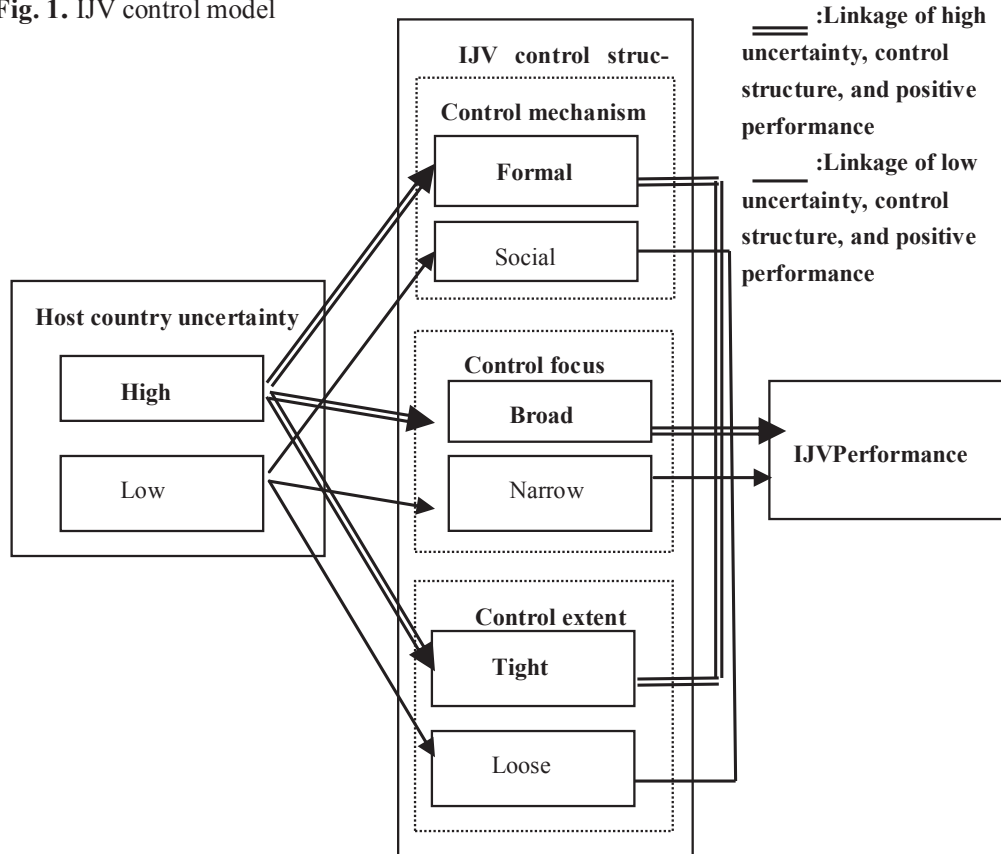
Based on the chi-square test, $\chi^2 = 12.43$ the result was significant at $p < 0.01$ ($df = 5$) (see table 2). Similarly, in low uncertainty countries, Finnish parent firms also seem to be more satisfied with IJV performance (with mean of performance: 3.90) when using narrow, social, and loose control over their IJVs, than in the cases of using other control structures in IJVs (with mean of performance: 2.40). Based on the chi-square test, $\chi^2 = 15.13$ the result was significant at $p < 0.01$ ($df = 5$) (see table 2). Thus, the results supported H4.

5 Summary and Conclusions

The present paper offers a valuable insight into these challenges and evidences some traits for successful operations in foreign countries through the use of proper control structure by the foreign firms. The presented set of hypotheses may prove very useful, since the ability to adapt and change successfully has become critical (Brown & Eisenhardt, 1997; Feldman, 2004). The aim of the paper was to answer the questions: 1) How do foreign parent firms design IJV control to cope with the host country uncertainty? and 2) What are the relationships between foreign parent control structure in IJVs and the IJV performance? The results show that in high cultural uncertainty and high competitive uncertainty, parent firms preferred broad, formal, and tight control over their IJVs. In contrast, in high environmental uncertainty, in order to react fast to the changes of the environments, most firms preferred narrow and loose control. The present study contributes to the IJV control theory by offering a model of linkage between host country uncertainty and parent control. In more detail, most foreign parent firms want a high level of control that is consistent with their bargaining power (Calantone & Zhao, 2001). However, the present study suggests that, in order to operate successfully in for-

oreign countries, the foreign parent firms need to have a comparable IJV control structure that fits the IJV operating environments.

Fig. 1. IJV control model



This finding is consistent with the work by Lynch (1993), in which the author maintained that the parent control has to be compatible with the risk and uncertainty of external environments. Previous researchers, for example Birnberg (1998) analyzed the uncertainty which may occur when involving in partnerships but without assessing how firms can cope with it. This paper also extends the previous studies by specifying which control structure could be implemented in the IJVs to deal successfully with different kinds of uncertainty. In particular, in high uncertainty countries, parent firms will need to exercise formal, broad, and tight control over their IJVs to have high IJV performance. On the other hand, IJVs will perform better when parent firms exercise social, narrow, and loose control in a low uncertainty country.

In sum, although IJV control has been frequently addressed in the IJV literature, the inquiry into how to manage the IJVs dealing with host country uncertainty remains limited. The study presents one effort to build a more comprehensive IJV theory by providing an IJV control model (Figure 1.). We also acknowledge several limitations to our study. First, the sample size of the study is rather small and only from Finnish IJVs. In addition, in the analysis of IJV control, we focused

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only on two main IJV control structures including formal, broad, and tight control and social, narrow and loose control. However there are possible of other combinations of IJV control structure which include three dimensions of control. For further studies, researchers could use the framework of the present work with a bigger sample size and foreign parent firms from several countries. In addition, researchers could also investigate how the foreign parent firms exercise their control in their IJVs in order to cope with other specific factors that contribute to the uncertainty in the host country, such as interest rate fluctuation and the supply and demand uncertainty. In addition, because IJVs evolve overtime, further studies are also needed to investigate the dynamic of the parent control over IJVs to deal with the host country uncertainty along the IJV's life cycle. Finally, it would be worth researching whether the control of the IJVs functioning in the emerging markets is different than that of those IJVs located in the developed markets.

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Appendix: Operationalizations of the present study

Control dimensions

Control mechanisms: Measured on a 5 point-scale, the respondents were asked to assess their method of monitoring and control of the IJVs.

Formal control: a) Participation in venture's board meetings; b) Appointment of key venture personnel; c) Incentive plans for top management; d) Financial reports; e) Exercising veto rights at the board meetings; f) Taking part in planning JVs budgets; g) JV general manager participates in parent worldwide; h) Parent-venture face to communication, formal meeting; i) Participation in JV's decision-making; j) Control based on equity share.

Social control: k) Feedback; l) Parent-venture informal socialization (informal phone calls, outdoor activities); m) Parent training of venture managers. Control mechanism is formal if parent firms resort to more on formal mechanisms (such as those from a. to j. with a response value equal or greater than 3. On the other hand, control mechanism is social if parent firms exercise those from point k) to m) with a value from 3 to 5.

Control focus: Measured on a 5 point-scale, the respondents were asked to assess their monitoring and control of the IJVs on the focus areas: a) International marketing; b) Local marketing; c) Domestic sales; d) Human resources; e) Procurement; f) Production; h) Quality control; h) Prices and costs; i) Financing and accounting; j) Research and development; k) Local government relations; l) General management.

Control focus is **narrow** if the parent firms exercise it over some selected areas (between 1 to 3 areas from the above list). On the other hand, control is **broad** if they exercise it over more than 3 aforementioned areas or all areas of IJV activities from a) to l).

Control extent: degree of control which is exercised over the IJVs based on control mechanism and focus. Control extent is **tight** if parent firms exercise more than three control mechanisms and broad control. Control is **loose** if parent firms exercise less than three control mechanism and narrow control.

Uncertainty dimensions: (Perceiving cultural, environmental, and competitive uncertainty) were measured on an ordinal scale from 1="very high" to 5="very low".

Host country uncertainty: is a mean of cultural uncertainty, environmental uncertainty, and competitive uncertainty.

Performance: was measured on 5 point-scale, respondents were asked if they satisfy with IJV performance with 1= "very unsatisfied" to 5= "very satisfied".

DO PARTNERS' DIFFERENCES AFFECT INTERNATIONAL JOINT VENTURE CONTROL AND PERFORMANCE?

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ABSTRACT

The paper examines the influence of differences between partners on the control of international joint ventures (IJVs) and its subsequent performance. The term “partners’ differences” here refers to their perceptions of differences organizational cultures, in objectives when entering IJVs, and in partners’ business relatedness to their IJVs. IJV control is conceptualized across three dimensions including mechanism, focus, and extent. The empirical evidence is based on a survey of Finnish firms that established IJVs with local firms from the 1990s. The results showed that the higher the level of the partners’ perceived differences with their local counterparts were, the more likely they were to exercise formal, broad, and tight control over their IJVs. The results also indicate that in the case of major differences between partners, formal, broad and tight control by foreign partners lead to better IJV performance. In the case of lower level differences between partners, social, narrow, and loose control by foreign partners lead to better IJV performance.

1 INTRODUCTION

International joint ventures (IJVs) are formed between firms with different organizational and cultural characteristics (Duan, 2007). Problems occur in IJVs due to the difficulties in managing them caused by the presence of two or more partners (Inkpen & Beamish, 1997). In particular, conflicts between partners are caused by the differences between partners such as the incompatible management styles and approaches, and cultures (Killing, 1983). Differences between partners often increase the risk of misunderstanding and cooperation failures (Child & Yan, 2003). Thus, IJVs are notoriously difficult to control (Yan & Child, 2004). While previous research has not provided evidence directly explaining how parent firms make control structure choices (Groot & Merchan, 2000); it has suggested some possible determinant factors (Geringer & Hebert, 1989; Blodgett, 1991a;

Werner, 2002) such as culture (Hennart & Larimo, 1998), and their motives (Cantalone & Zhao, 2001). Chang and Taylor (1999), who studied the control exercised by 107 American and Japanese Multinationals (MNCs) over their subsidiaries in Korea, found that national culture was one of the key influence on the choice of control mechanisms. Child et al. (2005: 224) maintain that foreign parent firms' cultures may well be expressed in the modes of their control in IJVs. However, previous research on the effect of cultural preference on management control is decidedly mixed (Chalos & O'Connor, 1998). Several researchers found no significant relationship between national culture and management controls (Chow, Shields, & Chan, 1991; Frucot & Shearon, 1991; Chow, Kato, & Shields, 1994; Merchant, Chow, & Wu, 1995). In contrast, other researchers proposed that there were significant interactions between national cultural dimensions and management controls (Harrison, 1993; Harrison, McKinnon, Panchapakesan & Leung, 1994; Lau, Low, & Eggleton, 1995; O'Connor, 1995). This is something of a puzzle and it has been suggested that, further research is needed to investigate the effects of cultural differences on IJVs (Pothukuchi et al., 2002).

Furthermore, partners are from different countries and therefore, often have different goals when they enter into IJVs. Luo and Park (2004) suggested that the incongruent goals of partners lead to reduced IJV performance. The existing research does not show how firms can handle the differences in partner's goals in joint venturing to stimulate an increase in IJV performance. Another potential factor that might influence IJV control and performance is the extent of business relatedness between partners and to the IJVs, which has received considerable attention in IJV research. Some studies have focused on relatedness between parent firms (Saxton, 1997), while others have focused on relatedness between partners and the units (Hanvanich et al., 2005). However, the results of business relatedness on IJV performance are thus far undetermined (Hanvanich et al., 2005). Moreover, previous studies have ignored the role of the relatedness on the IJV control. As such, there is a need to further investigate the factors that might influence IJV control and performance in the context of cultural differences, differences in motive, and business relatedness. This paper, therefore, attempts to fill this gap.

This paper aims to further analyze the influence of foreign partners' differences on their control of IJV and on the IJVs' performance. The general research question is "How do partners' differences influence IJV control and performance?" Expressed in more detail, the paper's aim is to answer the questions:

How do partners' perceptions of differences in management style, joint venturing objectives, and business relatedness affect the control they exercise in IJVs?

What are the relationships between partners' differences, IJV control, and IJV performance?

This paper departs from existing work in two ways. First, while most previous researchers have focused on only one or two dimensions of control in their IJV research, in this paper, the IJV control adopted is broader than usual in taking into consideration three dimensions of IJV control: mechanisms, focus, and extent. Second, much previous research has focused on differences in IJVs and how these differences affect IJV performance. Taking one step further, this paper points out how a parent company can cope with the differences through its control strategies, leading to better IJV performance. In this paper, an IJV is regarded as a separate firm formed by two or more partners with an expected proportional share of dividend as compensation (Contractor & Lorange, 1988). Partner's differences refer to the differences in businesses (e.g. Merchant & Schendel, 2000), objectives of entering to the joint ventures (e.g. Harrigan, 1985), and the partner's management style (e.g. Kogut & Singh, 1988). IJV control refers to the influence of foreign partners on IJV operation (Geringer & Herbert, 1983). IJV performance is the achievement of goals set by parent firms and is evaluated from a different perspective (Duan & Chuanmin, 2007). Moreover, Beamish and Delios (1997) concluded from their review that perceptual and objective measures of IJV performance are generally correlated. In the present study, perceptual measures such as parent satisfaction with the IJV, total performance and financial performance are used to investigate the performance of IJVs. The paper is organized as follows; first it conceptualizes the IJV control along three dimensions including control mechanism, focus, and extent. Then, it develops several hypotheses regarding the influence of partners' differences on IJV control structure and IJV performance. Next, the paper discusses the methodology used, the results, and the implications of the study.

2 CONCEPTUALIZATION OF IJV CONTROL

Management control refers to the process by which an organization influences its members and its units to work in ways that meet the organizational objectives (Glaister, 1995). In IJV, because there are two or more parties involved, management control is complex (Geringer & Hebert, 1989). Furthermore, researchers have acknowledged that the control systems are multidimensional (Berrell, 2007; Kumar & Seth, 1998; Lu & Hebert, 2005). Unfortunately, the existing research

tends to focus on only one or two dimensions. In order to be able to capture the complex nature of the IJV and conduct IJV control research thoroughly, this study adopts the multidimensional approach of control developed by Geringer and Hebert (1989).

2.1 *Control mechanisms*

Control mechanisms are structural arrangements deployed to determine and influence what the members of the organization do (Geringer & Hebert, 1989; Fryxell, Dooley, & Vryza, 2002). Control mechanisms consist of a variety of instruments including formal and social controls that are available to firms for the exercise of effective control over their members (Friedman & Beguin, 1971). *Formal control* depends on hierarchies, standards, codified rules, procedures, goals, and regulations that specify desirable patterns of behavior (Das & Teng, 1998). These instruments of formal control are usually agreed upon and imposed by both foreign and local parent firms (Fryxell et al., 2002) and typically include control over the constitution of the board of directors, the appointment of key personnel, the planning and approval process for capital budgeting and resource allocation, and the lay down procedures and routines for IJV (Lu & Hebert, 2005; Mjoen, 1993). *Social control* is designed to promote expectations and mutual commitments through which IJV managers learn to share the common attitudes and knowledge of the organization (Nonaka & Takeuchi, 1995). Social control refers to various mechanisms such as informal communication, information exchange and training, mentoring, and personal relationships. Social control develops a common organizational culture that fosters shared values and norms, without explicitly restricting the behavior of the targeted people through the means of those social controls (Chalos & O'Connor, 1998; Fryxell et al., 2002; Schaan, 1983).

2.2 *Control focus*

Control focus can be divided into broad control and narrow control (Geringer & Hebert, 1989). In control focus, the partners can choose to have a *broad control* focus and attempt to exercise control over the entire range of the IJV's activities, or they can have a *narrow control* focus and confine their control activities to the performance dimensions they consider to be critical (Geringer & Hebert, 1989; Groot & Merchant, 2000). Child et al. (2005) maintain that depending on several factors, such as the parent firm's competencies and the critical nature of such activities parent firms may focus their control on activities related to technology in one case but on market related activities in another. There are also cases when the parent firms may focus their control on both technology and market related activi-

ties (Child et al., 2005). The areas of control focus are marketing, sales and distribution, procurement, general management and operation, finance and accounting, research and development, production and quality, and human resources.

2.3 Control extent

The control extent refers to the degree or tightness of control which is exercised on the venture (Geringer & Hebert, 1989). Control extent consists of tight control and loose control. In *loose control*, the parent firms tend to use only one or two control mechanisms and focus their control exercised on only one or two control areas in the IJVs. Furthermore, the parent firms are more flexible in their evaluation of employees' behavior and their performance. The frequency of report submission by the IJV managers to the parent firms is low and there are very few meetings between the parent firms and the IJV managers. In contrast, the *tight control* mode tends to be strict with respect to the employee's dress code, punctuality, and cost-consciousness; and also detail oriented, and precise in operation. Tight control can be effected through any mechanism that provides the partner with a high degree of certainty that the personnel in the IJV will act as the given partner wishes. Tight control is manifest also if the IJV staff is held strictly accountable for adhering to a complete set of prescribed actions such as policies and procedure. Tight control is also related to very frequent and precise reporting (Child et al., 2005).

In summary, IJV control consists of three dimensions mechanisms (Formal; Social), focus (Broad, Narrow), and extent (Tight, Loose). These three control dimensions produce eight possible control structures, namely Formal, Broad, Tight (FBT), Formal, Broad, Loose (FBL), Formal Narrow, Tight (FNT), Formal, Narrow, Loose (FNL), Social, Broad, Tight (SBT), Social, Narrow, Tight (SNT), Social Broad, Loose (SBL), Social, Narrow, Loose (SNL).

3 PARTNERS' DIFFERENCES AND IJV CONTROL AND PERFORMANCE

Partners coming to joint venturing differ in their businesses, the objectives they have in mind when forming the IJV, and in their management styles. IJVs usually experience management difficulties when partners who come from different backgrounds work together (Wang et al., 1999). Thus, establishing control over the IJVs becomes crucial for IJV operations and therefore, has a direct effect on IJV performance.

3.1 *Management style*

Foreign and local parent firms differ in their management styles, which may result in conflict and incompatible goals (Ding 1997, Hennart, Kim, and Zeng, 1998; Yan & Gray, 2001). This is because the more diverse the organizational cultures of the partners are, the greater the differences in their organizational and administrative practices, employee expectations, and interpretation of and response to strategic issues (Kogut & Singh, 1988). This may lead to bargaining and negotiating between foreign and local parent firms, which slows down the decision-making process and adds to bureaucratic costs (Balakrishnan & Koza, 1993; Ding, 1997). In the case of organizational cultural differences, foreign and local partners are also different in routines (Hennart et al. 1998) and in dealing with conflicts over issues of product quality, exports, employee wages, or labor policy. These may result in higher uncertainty, the possibility of opportunism, and higher bureaucratic costs as a result of greater bargaining and negotiating between partners (Ding 1997, Pangarkar & Klein, 2004). To eliminate the problems arising from long negotiation processes and delays in decision-making, foreign partners may need to exercise broad and tight control over the IJVs. In addition, to avoid misunderstanding in the IJVs, partners are required to establish clear hierarchical control by creating formal control over the IJVs. According to Egelhoff (1984), the greater the organizational cultural distance between foreign and local parent firms, the greater the need to exercise formal control over the IJVs. As a result, it can be expected that:

Hypothesis 1: The greater the management style differences between foreign and local partners, the more likely foreign partners are to exercise broad, formal, and tight control over the IJVs.

3.2 *Objectives of entering into IJVs*

Partners from different firms might have different objective when entering IJVs. According to Harrigan, (1985), partner firms establish IJVs to generate internal benefits, competitive benefits, and strategic benefits.

TABLE 1. Selected empirical studies on IJV published in 1995-2008

Author	Sample Size	IJV Location	Industrial Type	IJV establishment Time	Data Collection	Concept of Control	Areas of Focus
Glaister (1995)	94	UK	C-S	1980	Survey	Mechanism, extent, focus	Different degree of IJV control between partners, IJV autonomy
Hébert (1996)	70	Canada	C-S	Since 1988	Survey	Extent of control	Control, trust, conflict
Dianne (1997)	3	East Europe	M	1991	Interviews & Survey	Scope, extent, mechanism	Local culture and foreign control
Mjoen & Tallman (1997)	102	C-N	C-S	Not provided	Survey	Specific activity control	Strategic resources, equity, control and performance
Kumar & Seth (1998) control	64	US	M	Prior to 1992	Survey	Control mechanism	Strategic interdependence, environmental uncertainty, and
Ramaswamy, Gomes, & Veliyath (1998)	83	India	M	Prior to 1982	Survey	Ownership control	Optimum range of control and performance
Wang et al., (1998)	132	China	C-S	1991-1993	Survey	Control mechanism	Relationship between control and performance
Child & Yan (1999)	67	China	M	Not provided	Survey	Strategic and Operational control	Resource provision, appointments control
Gulati & Westphal (1999)	218	U S	C-S	Not provided	Survey	Board control	Cooperative and control
Lyles et al. (2000)	73	Vietnam	C-S	Around 1992	Survey	Social and formal control	Trust, knowledge acquisition, control and performance
Guidice (2001)	750	US	C-S	Prior to 1999	Survey	Board of director, staffing, socialization	Experience, strategy, control
Luo, Shenkar, & Nyaw (2001)	295	China	M	Not provided	Survey	Specific and overall control	Relationship between dual parent control and IJV performance

TABLE 1. Selected empirical studies on IJV published in 1995-2008 (Continued)

Author	Sample Size	IVJ Location	Industrial Type	IVJ establishment Time	Data Collection	Concept of Control	Areas of Focus
Yan & Gray (2001)	90	China	M	1981-1991	Survey	Strategic and operational	The effect of parent control on IJVs
Fryxell et al. (2002)	129	U.S.	C-S	Not provided	Survey	Formal and social control	IJV age, trust, and control
Johnson et al. (2002)	51	North America	M	Not provided	Survey	Decision control	Fairness, commitment, and control
Li (2003)	215	China	M	Around 1994	Survey	Decision control	Ownership, control and performance
Mohr (2003)	110	China	C-S	Not provided	Survey	The extent of control	Trust and control
Chalos & O'Conor (2004)	117	China	C-S	Not provided	Survey	Control mechanism	Determinant factors of control
Choi & Beamish (2004)	71	Korea	M	1986-1996	Survey	Split, share, dominant control	Relationship between control and performance
Pangarkar & Klein (2004)	76	C-N	C-S	Prior to 1996	Survey	Strategic control	Relationship between control and performance
Barden et al. (2005)	12	Vietnam	C-S	1988-1996	Interview	Operational control	Control and conflict
Buckley et al. (2005)	20	UK	C-S	Not provided	Survey & Interview	Control mechanism, focus, and extent	Different control mechanisms used in IJVs
Lu & Hebert (2005)	720	C-N	C-S	1985-1993	Secondary sources	Ownership control	Initial conditions, control, and performance
Duan & Chuanmin (2007)	3	China	C-S	1982-1986	Interview	Ownership, control mechanisms	Relationship between control and performance
Whitelock & Yang (2007)	61	China	C-S	Around 1997	Survey	Strategic operations	Parent control, objectives, IJV Performance
Meschi & Riccio (2008)	234	Brazil	C-S	1973-2004	Interviews	not applicable	Country risk, national cultural differences, and IJV survival
Kwon (2008)	94	Korea	C-S	Not provided	Secondary data Survey	social exchange	Trust, commitment, parent's satisfaction

C-N: Cross Nations

M: Manufacturing

C-S: Cross Section

From the local government perspective, IJVs are often a means to protect local firms and to foster the development of the local economy and industry (Makino, 1995). Previous researchers suggest that the objectives of parent firms determine their adoption of control mechanisms in IJVs (e.g. Calantone & Zhao, 2001). Gaining management control over an IJV is one way to ensure that one's strategic objectives are actively pursued, and to actively monitor and curb possible opportunism by one's partner (Williamson, 1975). When the differences between partners are great, these often result in conflictual behavior between partners, leading to misunderstandings and interaction problems (Pothukuchi et al., 2002). Killing (1983) proposed that IJVs work most effectively when they avoid the coordination costs of shared management. Coordination costs often occur when there is a constant need for communication, shared decision-making and ongoing negotiations (Gulati & Singh, 1998, Barden et al., 2005). These are often time consuming and reduce IJV performance. Thus, when foreign and local partners' objectives are different, foreign partners need to impose broad and tight control over their IJVs. In addition, as partners' expectations are different, precise guides to the procedures and operations of the IJVs are needed, leading to the exercise of formal control by the foreign partners. As a result, it can be expected that

Hypothesis 2: The greater the differences in objectives between foreign and local partners, the more likely foreign partners are to exercise broad, formal, and tight control over the IJVs.

3.3 *The partners' business relatedness*

The partner's business relatedness is a measure of how similar or connected are the business activities in nature of the partners relative to those performed by the IJVs (Merchant & Schendel, 2000). Firms may be in the same industry when they joint venturing, and the ventures need to learn from both partners. IJV control is therefore designed to support IJVs in their learning from their parents. Thus, when partners are involved in a similar business, less control is needed so as to leave room for learning to take place in the IJV. This is because similarities in the business activities of the parent and the IJVs lead to increased economies of scale and scope by increasing learning opportunities and reducing production cost. Therefore, partners should let the IJVs to take full advantages of the similarities, and learning opportunities by exercising narrow and loose control over their IJVs. In addition, previous researchers have pointed out that social control can promote increased learning in the ventures (Inkpen & Beamish, 1997). On the other hand, the management of a joint venture becomes critical when the new business is un-

related to a firm's existing operations (Kogut, 1988). When working in the new and unfamiliar business, the partners are required to work closely with IJV management teams in order to follow the situations and to make sure that the new business will develop in the desired direction. Thus, formal, broad, and tight controls are needed. As a result, it can be expected that:

Hypothesis 3: The higher the degree of partners' business relatedness to each other and to the IJVs, the more likely foreign partners are to exercise social, narrow, and loose control over the IJVs

3.4 *Partner's differences and IJV control and performance*

Child et al. (2005) maintain that control is critical for the successful management and performance of a strategic alliance. Lorange et al. (1986) maintain that through exercising a proper IJV control structure, foreign parent firms can make sure that their strategies are effectively implemented, and their resources are efficiently utilized for the enhancement of the IJV's performance. To achieve the overall objectives in the IJVs, partners have to consider both the IJV control structure and the risks involved (Lynch, 1998), taking into account the extent of the differences between partners and the degree of trust between them (Birnberg, 1998). Differences between partners often results in ineffective communication and quite often lead to the dissolution of IJVs (Meschi & Ricio, 2008). Lorange et al. (1986) maintained that by exercising formal control in dealing with the internal uncertainty caused by differences, the foreign partners can make sure that their strategies are effectively implemented, and that their resources are efficiently utilized for the enhancement of the IJV performance. In contrast, adopting narrow and loose control to cope with internal uncertainty can lead to IJV failure (O'Connor, 1995). Mjoen (1993) found that a tight level of control was associated with better performance in cases where partners have differences in their businesses and objectives. In addition, broad control has a crucial role to play in the success of IJVs (Barden et al., 2005; Berrell, 2007), especially, when transaction costs are high and partners know little about each other (Pangar & Klein, 2004). Thus, as a result of hypothesis 1 to hypothesis 3 we expect that:

Hypothesis 4a: Formal, broad, and tight control exercised by foreign partners over their IJVs leads to better IJV performance in cases of greater differences between partners.

Hypothesis 4b: Social, narrow, and loose control exercised by foreign partners over their IJVs leads to better IJV performance in cases of lesser differences between partners.

4 METHODOLOGY AND RESULTS

4.1 *Method*

This study adopted a survey research design to fit with the nature of the research. In the survey, the questions about joint venture control and performance were collected directly from those involved in IJV operations. Furthermore, to be able to generalize conclusions about the joint venture control, a large number of IJVs is needed for any examination. This would have made face to face interviews very costly in terms of time and money, and an impractical way to proceed to achieve the desired sample size. The measure of variables is based on a 5 point-score (see Appendix for more details). Following Blodgett (1991b), Beamish & Inkpen (1995), Glaister, (1995), Nguyen & Larimo (2008), the methodology used to analyze the relationships between dependent and independent variables in IJV research incorporates description statistics and the Chi-square test. The purpose of the methods is to determine how well an observed set of data fits an expected set of hypotheses. These methods are used to examine the differences with categorical variables and the relationships between internal uncertainty factors and IJV control structures, and IJV control structure and IJV performance. The method is particularly useful to find out whether an IJV control structure which is made up of different elements of IJV control dimensions (formal, social, broad, narrow, tight, and loose) has a normal distribution or if the structure has formed under the influence of the parents' differences and business relatedness. Similarly, the method evidences whether or not IJV performance is influenced by the IJV control structure.

4.2 *Sample description*

The target firms and investments were identified as follows 1) from the FDI data base collected by the project leader from the late 1980s based on press releases on IJVs published in leading business magazines and newspapers and 2) from annual reports and websites of the 250 largest Finnish firms; 3) based on the earlier surveys focusing on IJVs and WOS by Finnish firms conducted by the project leader. From the resources, we identified 340 qualifying IJVs formed by Finnish firms since 1988 and in operation at least up until 2002. The qualifying 340 IJVs involved 200 Finnish parent firms. From among those 200 firms, several firms were very difficult to contact either because they had been restructured or gone out of business. The firms were contacted to determine the correct informants. In some firms there was no longer anyone with sufficient knowledge required for the

study. This left a total of 161 Finnish parent firms. Given time and cost constraints a postal questionnaire and online web survey were used to gather the data. The participants were those managers who had been directly involved in establishment and operations of IJVs.

To enhance the quality of the data, the respondents were contacted by phone in December 2006 to explain the key points of the study and the questionnaires. In exchange for their participation in the study and to provide motivation and stimulate accurate responses, the respondents were assured of anonymity, promised a summary report of the findings and entered into a draw for three gifts. After one reminder at the end of the January 2007, at another the end of February, 54 questionnaires were returned, of which 5 questionnaires were not usable. Thus, the final sample was 49 IJVs including 40 Finnish parent firms. The response rate was 24.84% which is relatively similar to that of earlier respective studies in Finland (see Larimo & Rumpunen, 2006). The sample was carefully examined for any systematic response bias using *t-tests*. Respondent and non respondent firms were compared by their age, size, international experience, and IJV experience. No statistically significant difference was found. Thus, there was not response bias to be found in the final sample. Among the 49 IJVs of the final sample, 45% were established in 1988-1995, 55% in 1996-2006; 53 % through partial acquisitions, 47% through greenfields, 76 % were with 2 partners and 24 % with 3 partners; 61% with indefinite duration, 22% with duration of less than 5 years, 17 % with a duration of more than 5 years; 41 % had between 10% and 49% Finnish ownership, 10% had equal ownership, 49 % of had Finnish major ownership at establishment; 71% were located in emerging economies, and 29% in developed economies; 63% dealt with industrial products, 27 % with consumer products, 10 % with both consumer and industrial products. The summary of the operationalization of the key variables of the study is presented in Appendix 1.

4.3 *Results and analysis*

Regarding partners' differences and IJV control, most respondents regarded countries like Estonia, Russia, China in a very similar way, i.e having the same level of differences and with those differences being high level, in terms of management style with Finland norms (the mean is 1.5, with 1=strongly disagree and 5=strongly agree). With regard to the perception of the objectives of entering into the IJVs, most respondents when asked to consider whether objectives conflict, regard their partners who come from emerging economies as having conflicting objectives (with a mean of 4.1; where 1=strongly disagree and 5= strongly agree).

Partners operating in developed economies are seen as having less conflictual objective when entering IJVs – with a mean here of 2.2.

Table 2. The results of the study based on the chi-square test

Hypotheses			χ^2	DF	Results
Partner's differences		Control structure			
H1: Greater management style differences		Broad, Formal, Tight	13.01	5	Significant at 0.05
H2: Greater objective differences		Broad, Formal, Tight	15.07	5	Significant at 0.01
H3: Greater business relatedness		Social, Narrow, Loose	17.01	5	Significant at 0.005
Partner's differences	Control structure	Performance			
H4: High	Broad, Formal, Tight	+	15.32	5	Significant at 0.01
Low	Social, Narrow, Loose	+	12.91	5	Significant at 0.05

The most common control structure adopted by Finnish partners in the reviewed IJVs was formal, broad, and tight control as utilized by 32 of the 49 which accounts for 65.30%. With regard to Hypothesis 1, over 70% of Finnish partners exercised formal, broad, and tight control when they perceived high organizational cultural differences with local partners. Less than 15 % of Finnish partners exercised social, narrow, and loose control, and the rest, about 15 % of the Finnish partners exercised other control structures such as social, broad, and tight; formal, narrow, and loose control, over their IJVs. Based on the chi-square test, where $\chi^2=13.01$, the result is significant at $p<0.05$ ($df=5$). Thus, the result supports H1. Turning to hypothesis 2 over 75 % of Finnish partners used formal, broad, and tight control when they perceived major objective differences with the local partners. Based on the chi-square test, where $\chi^2 = 15.07$, the result is significant at $p<0.01$ ($df=5$) (see table 2). Thus, the results support H2. Regarding Hypothesis 3, over 90% of Finnish partners exercised social, narrow, and loose control when they perceived high business relatedness with their local partners and with the IJVs. About 5 % of Finnish partners exercised formal, narrow, and loose control, and the remaining roughly 5 % Finnish partners exercised social, broad, and tight control over their IJVs. Based on the chi-square test, $\chi^2=17.01$ the result significant at $p<0.005$ ($df=5$). Thus, the result supported H3

Turning to partners' differences and the control and performance of IJVs, the performance was measured using seven different subjective measures. Respondents were asked to rank on a 5 point Likert scale, first the weight given and secondly their degree of satisfaction with all seven measures. The two most important

measures of performance were total performance and financial performance. In the reviews, the mean of the assessment of financial performance of the IJVs was 3.4 and the mean relating to overall performance was 3.6. (1=very dissatisfied to 5=very satisfied). This shows that Finnish parent firms are somewhat more satisfied with their IJV' overall performance than they are with the financial performance. In addition, the findings of the study show that when they perceived high differences with their local partners, Finnish partners are more satisfied with their IJV performance (mean 4.09) when they exercise formal, broad, and tight control over their IJVs than other control structures (mean 2.25).

Based on the chi-square test, where $\chi^2 = 15.32$ the result is significant at $p < 0.01$ ($df = 5$) (see table 2). Similarly, when Finnish partners perceived only minor differences with their local partner, they also seem to be more satisfied with IJV performance (with a mean for performance of 3.56) when exercising narrow, social, and loose control over their IJVs, than in the cases of using other control structures in IJVs (with a mean for performance of 2.47). Based on the chi-square test, where $\chi^2 = 12.91$ the result is significant at $p < 0.05$ ($df = 5$) (see table 2). Thus, the results support H4.

5 CONCLUSIONS

The study investigated whether or not partners' differences influence IJV control and performance. Partners' differences are categorized into differences in business relatedness, objective held when entering IJVs, and management style. IJV control dimensions are based on the work of Geringer and Hebert (1989) including control mechanism, control focus, and control extent. The empirical evidence is based on a survey of Finnish firms that established IJVs with local firms from the 1990s.

The results show that partners' differences have strongly influenced IJV control and thus, having influences on IJV performance. The results reveal that partners perceiving high level of difference from each other require formal, broad, and tight control exercised over their IJVs. The results, in addition, indicate that in the case of high level of differences between partners, formal, broad and tight control by foreign partners lead to better IJV performance. In contrast, in the case of low level differences between partners, social, narrow, and loose control by foreign partners leads to better IJV performance.

The major contribution of this study is to the IJV control theory. The study has provided empirically tested models acting as an additional knowledge about the

way partners cope with internal uncertainty caused by partner's differences in management style, in objectives when forming IJVs, and in their business relatedness to their IJVs. Another important contribution of this study is to extend the existing research and nurture a better understanding of international joint venture performance. The study offers managers ways to foster IJV performance by having proper IJV control structures that can limit the negative effect raised by the differences.

The study does have some limitations due to its small sample size and due to the focus of the foreign partners being from only one country - Finland. In addition, because IJVs change over time and the partners' degrees of difference may also reduce over time, it would be interesting to know the control and performance of IJVs will change against the respective measures. Researchers could use the framework of the present study with a bigger sample size and foreign parent firms from several countries. Finally, it would be worth researching if control of IJVs functioning in the emerging markets differs from that of those located in developed markets.

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APPENDIX 1: OPERATIONALIZATIONS OF THE STUDY

Partner's differences**Management style**

Partner's perceiving of organizational similarity
Partners were asked to assess if they have similar management styles

Measured on a 5 point-scale, 1= strongly disagree to 5 strongly agree

Objectives set for the joint ventures

Partners were asked to evaluate if the objectives set for IJVs are different between partners.

Measured on a 5 point-scale with 1=strong disagree, 5= strongly agree

Partners' business relatedness

Partners were asked to evaluate how similar is their business with the other partners and the IJVs

Measured on a 5 point-scale with 1= completely differences, 5= exactly the same

Control dimensions

Control mechanisms

- Formal control*
- a. *Appointment of key venture personnel*
 - b. *Participation in the venture board meetings*
 - c. *Incentive plans for top management*
 - d. *Financial reports*
 - e. *Exercising veto rights at the board meetings*
 - f. *Taking part in planning JVs budgets*
 - g. *JV general manager participates in parent worldwide meetings*
 - h. *Parent-venture face to communication, formal meeting*
 - i. *Participation in JV's decision making*
 - j. *Control based on equity share*

- Social control*
- k. *Feedback*
 - l. *Parent-venture informal socialization (informal phone call, outdoor activities)*
 - m. *Parent training of venture managers*

Measured on a 5 point-scale, the respondents were asked to assess their method of monitoring and control of the IJVs. Control mechanism is formal (F) if the parents exercise control more on formal mechanisms (from a. to j. with responses value from 4 to 5). On the other hand control mechanism is social (S) if parents exercise control mechanisms more on k. to m. (with response value from 4 to 5).

Control focus

- a. *International marketing*
- b. *Local marketing*
- c. *Domestic sales*
- d. *Human resources*
- e. *Procurement*
- f. *Production*
- g. *Quality control*
- h. *Prices and costs*
- i. *Financing and accounting*
- j. *Research and development*
- k. *Legal or local government relations*
- l. *General management*

Measured on a 5 point-scale, the respondents were asked to assess the focus areas of their monitoring and control of the IJVs. Control focus is broad (B) if parents exercise control on more than three areas from a. to l. (with response value from 4 to 5). On the other hand, control focus is narrow (N) if the parents exercise control from 1 to two selective areas (with response value from 4 to 5).

Control extent: degree or tightness of control which is exercised on the venture based on control mechanisms and control focus

Control is *tight* (T) if parent firms exercise more than three control mechanisms and broad control over the IJVs. Control is loose when parent firms exercise less than 3 control mechanisms and narrow control.

Performance

Financial performance
Total performance

Measure on a 5 point-scale, respondent were asked if they satisfied with IJV performance on both financial and total performance with 1= "very unsatisfied" to 5= "very satisfied"



Parent Control Dynamics and International Joint Venture Performance

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Abstract

This article examines the relationship between foreign parent control and International Joint Venture (IJV) performance over the lifecycle of the IJV. Following Geringer and Hebert (1989); Glaister, Husan, and Buckley (2005), Nguyen and Larimo (2008), the paper conceptualizes foreign parent control across three dimensions including mechanism, focus, and extent. The empirical evidence is based on an analysis of 49 Finnish IJVs established in the 1990s. The result shows that foreign parent firms who adopted a control dynamic approach will see better IJV performance. Broad, tight, and formal control exercised by foreign parent firms over their IJVs leads to better performance of those IJVs in the formation stage. When the performance of an IJV is viewed negatively, foreign parent firms who exercise more control over IJVs will see better IJV performance in the post-formation stage. In contrast, when IJV performance is positive in the formation stage, foreign parent firms are likely to exercise less control over the IJV in the post-formation stage.

Keywords: Control, Dynamics, Performance, Parent, International Joint Venture

1. Introduction

1.1 Background

In recent years, International Joint Ventures (IJVs) have become a critical part of corporate strategy and firm growth in global markets (Luo & Park, 2004). However, IJVs often experience managerial difficulties in achieving of the intended goals (Park & Ungson, 2001), and thus often have a greater than 50 % failure rate (Parkhe, 1993). Researchers suggest that control problems are one of the primary causes of IJV failures (i.e. Groot & Merchant, 2000). This is said to be due to the fact that in IJVs foreign parent firms are exposed to the risk of opportunism (Zhang & Li, 2001). Furthermore, the operating environment in a foreign market often involves high degrees of uncertainty and risk. Through exercising control, foreign parent firms make sure that their strategies are effectively implemented and their resources are efficiently utilized (Lorange, Morton, & Ghosal, 1986). Insufficient control may result in a leakage of knowledge, proprietary components and capability to outside group (Geringer & Hebert, 1989) or a loss of competitive advantage to other parent firms (Hamel, 1991) or to the competitors (Reich & Mankin, 1986).

1.2 Research gaps and research questions

The IJV control was introduced in early research by West (1959), Tomlinson (1970), Franko (1971), Behrman (1977), Rafii (1978). This early research on control elaborated the context of IJVs with respect to the relationship between the international strategy of foreign firm, the strategy of local partners, and IJV control. In these treatise works, the important focus was paid to the necessity of control of IJVs, rather than to the actual activities required to control and what to control (Geringer & Hebert, 1989). IJV research was continued by the works of Killing (1983), Schaan (1983) and since then has become an important subject in IJV literature (Calantone & Zhao, 2001; Lee & Beamish 1995; Parkhe, 1993; Yan & Gray 2001a). A substantial number of studies has addressed the importance of control to IJV performance (e.g., Beamish, 1988; Sohn, 1994). However, the results on the impact of parent firm control on IJV performance have been contradictory and controversial (Calantone & Zhao, 2001; Chalos & O'Connor, 1998; Geringer & Hebert, 1989; Groot & Merchant, 2000; Lecraw, 1984; Yan & Gray, 2001b). Earlier studies on foreign parent **dominant control** and its relationship to performance show mixed results: that is, they are either 1) *positive* (Ding 1997; Killing 1983; Lee & Beamish 1995; Luo, Shenkar & Nyaw, 2001); 2) show *no relationship* (Calantone & Zhao 2001; Kogut 1988); 3)

show a *negative relationship* (Boateng & Glaister, 2002; Child, Faulkner & Tallman, 2005; Isobe et al., 2000; Osland, 1994). In some other studies the results show a **shared control** between foreign and local parent firms as being positively related to IJV performance (Beamish, 1988, 1993). In the recent study on IJV control, Choi and Beamish, (2004) find that **split control** between foreign parent firms and local parent firms has an IJV performance level better than that found in the shared and dominant control models. In addition, it has been noticed that the control and performance relationship may vary in IJVs.

Faced with this research puzzle, researchers suggest that future research should seek to deepen IJV control research along its three dimensions including mechanisms, extent, and focus and its relationship to IJV performance (Chalos & O'Connor, 2004; Geringer & Hebert, 1989; Raswamy, Gomes, & Veliyath, 1998; Woodley, 2006). Furthermore, Shortell and Zajac (1988), Brouthers and Bamossy (2006), Nguyen and Larimo (2008), Nguyen and Larimo (2009) suggest the need to study IJV development processes such as control and performance outcomes. In addition, Kogut (2002) maintains that "no matter what the initial agreement on control and ownership may have been at the start of a venture, environmental change over time may shift the relative bargaining power among partners". This may lead to reconfiguration of the control design of IJVs as these environmental factors are crucial for an IJV's stability (Harrigan, 1985). Moreover, Yan and Zeng (1999) and Zhang and Li (2001) argued that the evolution of the control design is dependent on extraneous variables such as change in government policies, competitive environment. They explained that shifts in a partner's bargaining power may result from inter-partner learning, changes in resource contributions, industry structure, and the host government's regulations on foreign investments. These all lead to the continuously changing structure of organizations (Nielsen, 2007). As a result, IJV control design may not be stable over time and thus it is necessary to investigate how and why a parent firm's control structures implemented in their IJVs change during the lifecycle of the IJV.

The purpose of the present study is, therefore, addressed through the research question: **(1) What are the relationships between foreign parent control and IJV performance during the formation stage of IJV lifecycle? (2) Why and how do these relationships change during the post-formation stage of the IJV life-cycle?**

International Joint Ventures. Contractor and Lorange (1988) use the term "joint venture" for the creation of a separate corporation by two or more partners with expected proportional share of dividend as compensation. Hennart (1988) defines an equity joint venture as an independent legal entity that is formed when two or more sponsors bring specified assets to that entity and they are paid for some or all of their contributions from the profits earned by the entity. *In the present study, an IJV is regarded as a separate entity located in a foreign market formed by one (or more) multinational firm (s) and one (or more) local firm (s) whether through greenfield or partial acquisitions in the target markets*

IJV lifecycle has not been clearly defined and agreed in IJV literature. When focusing on the co-operative angle or inter-partner relations, researchers have often divided IJV life stages into three stages, as does Buechel (2000) with a formation stage, an adjustment stage, and an evaluation stage; Heide (1994) with a relationship initiation stage, a relationship maintenance stage, a relationship termination stage; Wood and Gray (1991) with a precondition stage, a process stage, and an outcome stage; and Ott (2003) with the three stages being a bargaining stage, a common agency stage, and a repeated games stage. While Kogut (2002) suggested three stages of the IJV lifecycle: creation, institutionalization, and termination, his research focused on only two stages: creation and termination. In contrast, when focusing on IJV success, researchers often distinguish only two IJV lifecycle stages, for example, formation and termination (Reuer, 2000), or pre-incorporation stage and post incorporation stage (Yehekel, Newbury, & Zeira, 2004), or a formation stage and stable development, or joint venture formation followed by breakdown (Chowdhury & Chowdhury, 2001). In summary, there are different ways to structure IJV lifecycle stages, depending on the focus of the research. *In the present study, the focus is on the control of IJVs and its relationship to IJV performance, therefore, the lifecycle stages of IJVs here include a formation stage and a post-formation stage.* An IJV formed three to four years previously will often be ready to enter its post-formation stage and that could also be termed an evaluation or reformulation stage (Shortell & Zajac, 1988).

The definition and measurement of organizational performance is always a controversial topic for academic researchers as well as practitioners in many different areas. While there have been many attempts to define and measure the performance of organizations, due to a lack of consensus on this concept, the extant empirical research has not produced a single theory of performance measurement that can be applied across organizations (Tatoglu & Glaister, 1998). Furthermore, the hybrid nature of IJVs, the possibility of incongruence between partners, and the influence of different cultures in IJVs, all result in the valuation of performance becoming very complex and contribute to there being no consensus on the determinants of IJV performance (Child & Yan, 2003: 283-284; Mohr, 2006; Zeng, 1998). Performance is the ultimate test of a firm's strategy (Schendel & Hofer, 1979), a multidimensional construct (Vryza, 1997), and may be evaluated from a different perspective by each IJV partners (Duan & Chuanmin, 2007). Therefore, different perspectives have been adopted in prior research to assess a venture's performance in previous research including a) a single parent firm (such as foreign parent or local parent) perspective; or b) a dual parent firm perspective;

and/or c) an IJV management perspectives. Geringer and Hebert (1991) find a significant correlation between a parent's assessment and that of the IJV manager. Further, Peng and Luo (2000) point out a high degree of correlation between self-reported data and archival data in China. Moreover, Beamish and Delios (1997) concluded from their review that perceptual and objective measures of IJV performance are generally correlated. Thus, *in the present study*, *perceptual measures* such as parent firm satisfaction with IJV total performance and financial performance are used to established performance of IJVs. The article is organized as follows: First, it conceptualizes IJV control. Then it analyzes the relationships between foreign parent control and IJV performance during an IJV's lifecycle. After that, the paper discusses the methodology, the sample, and the results of the study. Finally the study concludes with a discussion of the implications and potential directions of further study.

2. The Conceptualization of IJV Control

In the organizational literature, management control refers to the process by which an organization influences its members and its units to work in ways that meet the organizational objectives (Glaister & Bluckley, 1998). According to Child et al. (2005:15), control is a central aspect of management, and essential in any system that holds the managers accountable for their actions and decisions. Ouchi (1977: 95) suggested that "control can be conceptualized as an evaluation process which is based on the monitoring and evaluating of behavior or of outputs". Thus, the organizational literature emphasizes how control can be used to manage individuals and subunits. In IJVs, because there are two or more parties involved, their management control is complex (Geringer & Hebert, 1989). In this paper, *the control of IJVs is defined as the influence of the foreign parent firm on the IJV operations*. Researchers have also acknowledged that control systems are complex and multidimensional (see e.g Berrell, 2007; Das & Teng, 1998; Geringer & Hebert, 1989; Glaister, 1995 Glaister, Husan, & Buckley, 2005; Kumar & Seth, 1998; Lu & Hebert, 2005; Raswamy et al., 1998). Unfortunately, the existing research tends to focus on only one or two dimensions of control. In order to be able to capture the dynamic nature of the IJV and conduct IJV control research thoroughly, this study adopts the multidimensional approach to control developed by Geringer and Hebert's (1989). These control dimensions are elaborated upon below.

2.1 Control mechanisms

Control mechanisms are structural arrangements deployed to determine and influence what the members of the organization do (Fryxell et al., 2002; Geringer & Hebert, 1989). Control mechanisms consist of a variety of instruments including formal and social controls that are available to firms to exercise effective control over their members (Behrman, 1977; Friedman & Beguin, 1971). *Formal control* depends on hierarchies, standards, codified rules, procedures, goals, and regulations that specify desirable patterns of behavior (Das & Teng, 1998). These regulations are explicit in their prescription of behavior and in their means of enforceability (Das & Teng, 1998), aimed directly at protecting the assets of the parent firms (Fryxell et al., 2002). The formal control mechanisms help to decrease the potential for opportunism, by controlling the assets through hierarchical means (Mjoen & Tallman, 1997). Formal control includes majority equity holding, determining the composition of the board of directors, rights to appoint key personnel, control of the planning and approval process for capital budgeting and resource allocation and the setting of routines for IJVs (see e.g. Makino, 1995; Mjoen, 1993; Lu & Hebert, 2005).

Social control is designed to promote expectations and mutual commitments through which the JV managers learn to share the common attitudes and knowledge of the organization (Nonaka & Takeuchi, 1995). Social control refers to various mechanisms such as informal communication, information exchange and training, mentoring, development of a common organizational culture, and establishment of personal relationship with IJV managers. These mechanisms foster shared values and norms, without explicitly restricting the behavior of the selected people through the social controls (Chalos & O'Connor, 1998, Das & Teng, 1998; Fryxell et al., 2002; Schaan, 1983). Compared to formal control mechanisms, social control mechanisms have the potential to reduce monitoring and contracting costs, and to support the flexibility and adaptability of the enterprise (Dyer, 1997).

2.2 Control focus

Control focus can be further divided into broad control and narrow control (Geringer & Hebert, 1989). In control focus, the parent firms can choose to have a *broad control* focus and attempt to exercise control over the entire range of the IJV's activities, or they can have a *narrow control* focus and confine their control activities to the performance dimensions they consider to be critical (Geringer & Hebert, 1989; Groot & Merchant, 2000). Child et al. (2005) maintain that depending on several factors, including the parent firm's competencies and its evaluation of how critical activities are, parent firms may focus their control over activities related to technology in one instance but then focus on market related activities in another instance. The areas of control focus consist of marketing, sales and distribution, procurement, general management and operation, finance and accounting, R & D and development, production and quality, and human resources. Geringer and Frayne (1990) suggest that one of the crucial areas that determine whether the parent firm's intended objectives are achieved is their focus on the control of human resource control. In this paper,

the control focus is considered to be broad when parent firms exercise control over two or more areas, and narrow when they exercise control over only one or two areas.

2.3 Control extent

The control extent refers to the degree or tightness of control which is exercised over the venture (Geringer & Hebert, 1989). Control extent consists of tight control and loose control. With *loose control*, the parent firms tend to use only one or two control mechanisms and focus their control on only one or two control areas exercised over the IJVs. Furthermore, with loose control, the parent firms are more flexible in their evaluation of the employees' behavior and their performance. IJV managers have to submit reports less frequently and there are fewer meetings between the parent firms and the IJV manager in loose control types. Tight control can be effected through any mechanism that provides the partner with a high degree of certainty that the personnel in the IJV will act as the given partner wishes. Control is tight from a partner's perspective if that partner has the right to make or approve the key decisions (Geringer & Hebert, 1989). Tight control is also manifested if the IJV staff is held strictly accountable for adhering to a complete set of actions such as policies and procedures. Tight control is also related to highly frequent and precise reporting (Child et al., 2005). Control can be tightened through more intensive training of the IJV employees in production and management techniques (Van Sluys & Schuler, 1994). However, tight control may also have adverse side effects. As Child et al. (2005) have argued, if control is exercised in a too domineering manner and/or too frequently, it is likely to lead to significant ill will and to the eventual breakdown of the IJV.

3. Relational Dynamics between Control and Performance in an IJV's Lifecycle

Performance is an important issue in strategic management (Venkatraman & Ramanujam, 1986). Nielsen (2007) suggests that performance should be discussed in the context of the different stages of the development of an IJV. Previous research on the relationship between control and performance has been dominated by a static approach (Zhang & Li, 2001). However, in order to understand the complex nature of the relationship, it is believed that the dynamic perspective may help to investigate how control dimensions affect performance and how performance, in turn, affects the IJV control decisions of parent firms. In addition, previous researchers propose that "the control system at a relatively young IJV should be viewed as embryonic and should evolve over the life of the venture" (Chalos & O'Connor, 1998: 64). The paper continues by analyzing how foreign parent control structures in IJVs influence performance during the IJV formation stage. Then, the paper studies why and how foreign parent control systems in IJVs change under the influence of IJV performance in the post-formation stage.

3.1 Foreign parent control choice in the formation stage of the IJV lifecycle and their effect on IJV performance

Luo, Shenkar, and Nyaw (2001) find that broad control exercised by a foreign parent is an important contributor to its satisfaction with its IJV performance. Hoon-Halbauer (1994) maintains that the on-going management process of an IJV works better when foreign staffs possess dominant management control and holding the major decision making power. Brouthers and Bamossy (2006), studying the post-formation process of IJVs established by western and eastern European firms, find that high performance in IJVs is associated with broad control at an early stage of IJV formation. Moreover, Child, Markoczy and Cheung (1994) finds that IJVs in emerging markets like China, local managers are reluctant to make decisions and are afraid of accepting personal responsibility. It, therefore, appears in joint ventures at least local managers may need time to learn to take actions and accept responsibility in managing the IJVs. *As a result, it is to be expected that broad control by foreign parent firms leads to better IJV performance during the formation stage.*

Child et al. (2005) maintain that control is critical for the successful management and performance of any strategic alliance. Mjoen (1993) find that a tight degree of control was associated with better performance. Studying of IJVs in China, Chen (2004) maintains that tight control by local parent firms over IJVs has a negative impact on performance. This is because local parent firms usually do not advantageous expertise of management IJVs. In IJVs, local parent firms primarily contribute land, facilities, labor so they may not have a capability to control the technology and know-how contributed by foreign parent firms. In such situation, the result of tight control by local parent firms is a delay in the decision making process and to hinder implementation of best practices contributed by foreign parent firms, leading to a decrease in the competitive advantage of the IJVs. Therefore, a foreign parent firms should not let a local firm tighten control of an IJV but instead should exercise control itself (Chen, 2004). *As a result, tight control by foreign parent firms leads to better IJV performance in formation stage.*

Furthermore, Fryxell, Dooley, and Vryza (2002) find that formal control and IJV performance were positively related in younger IJVs but that this relationship became negative in more mature IJVs. As a result, formal control mechanisms are aimed at monitoring the behavior and performance of IJVs, which is critical for stability and efficiency during their early development stage (Larson, 1992). *As a result, formal control by foreign parent firms leads to better IJV performance during the formation stage.* In summary, we propose that:

Hypothesis 1: Broad, tight, and formal control exercised by foreign parent firms over their IJVs leads to better performance in the formation stage.

3.2 IJV performance during the formation stage and the changes in foreign parent control in the post-formation stage

Lorange (1997) maintains that because IJVs evolve over time, the balance of a parent firm's control should be shifted accordingly. In the same vein, Brouthers and Bamossy (2006) argue that changes in IJV structure and control relationships may result in lower transaction costs and improved IJV performance. In managing IJVs, Lee, Chen, and Kao (1998) suggest that foreign parent firms need to adopt a flexible mindset. Groot and Merchant (2000) suggested that IJV performance is directly related to parents firms' attitudes toward control. Several studies have focused on how IJV performance affects IJV reconfiguration. Vaidya (2000) argues that control related failures are likely to occur if control practices are not re-evaluated and modified in response to changing circumstances. Simonin (1997) argues that a parent firm's competence at successfully designing subsequent control structures is ultimately reflected in future IJV performance. Killing (1983) observes that partners might loose or strengthen control over the IJV in response to the IJV's on going performance. According to Brouthers and Bamossy (2006: 8), control changes may lead to improved cooperation and performance.

In post-formation stage, when performance results carrying over from the formation stage are positive the use of formal control mechanisms to mitigate opportunism in the later stage may be short-lived (Fryxell et al., 2002). This is due to the fact that formal control mechanisms are based on formal contracts between parent firms, and therefore, valid for a certain period of time (Dyer, 1997). When a parent firm's needs and strategies for IJVs change, they often call for repeated contracts renegotiation, leading to very high transaction costs. In addition, in the post-formation stage of IJVs, when the relationship between foreign parent and local parent firms matures, formal control mechanisms can cause conflicts and promote distrust between parent firms (Ring & Van de Ven, 1994). Consequently, in the post-formation stage of the IJV lifecycle, social control mechanisms (based on trust and commitment) are more economical, that is once the initial cost of establishing social controls averages out to become less than the cost of periodic contracting (Fryxell et al. 2002). Furthermore, Fryxell et al. (2002) find that social control and IJV performance were positively related only in the presence of effect-based trust between the parents, which is built during the development of IJVs. On the other hand, if parent firms rely totally on social control in the early in IJV lifecycle stage they may expose the potential for opportunism in the formation stage. Thus, trust often appears between parent firms in the post-formation stage rather than during the formation stage of the IJV lifecycle. In the post-formation stage, there is a need to find a balance between control and maintaining harmony between foreign parent and local parent firms. Kauser (2007) suggests that where there is a pre-existing trust, control should be monitored by social mechanisms. In the same vein Chen, (2004) maintains that in the later stage social control helps to increase a parent firm's confidence in its IJVs. This confidence can lead to high expectations of mutual learning and high degree of commitment by parent firms to the IJV and so promotes knowledge sharing and creates a more competitive bundle of resources (Dyer & Nobeoka, 2000). In short, when IJV performance in the formation stage of the IJV lifecycle is positive, foreign parent firms tend to exercise social control over their IJVs in the post-formation stage.

Furthermore, in post-formation stage, local managers also learn how to manage and direct IJVs towards their targeted goals. Robins et al. (2002) suggest that "mature" ventures often use local personnel supplied by local partners at many levels, thus giving local parent firms broader control over IJVs. Further, previous research has suggested that IJVs require greater autonomy in order to adapt to the social, political, financial, legal and cultural expectations of the IJV host environment (Yehekel, Newburry, Zeira, 2004). Moreover, Yehekel et al. (2004) proposed that foreign parent firms that allow IJV managers to formulate and implement policies in functional areas that are sensitive to the host country would lead to better IJV performance. Superior performance of an IJV in post-formation stage is also achieved if foreign firms focus their control on their resource contribution not on the whole range of IJV activities (Yan & Child, 2004). Moreover, during the post-formation stage of IJV as the level of trust increase between foreign and local firms, the need for control diminishes (Nielsen, 2007). Therefore, parent firms seek to focus their control over particular activities, rather than control all activities (Kauser, 2007). Merchant and Groot (2000) suggest that when recent IJV performance rates are relatively high, parents firms will utilize more looser control over the IJV and narrower control foci. As a result, when IJV performance in the formation stage of the IJV lifecycle is positive, foreign parent firms tend to exercise narrow control over their IJVs in the post-formation stage.

In addition, when an IJV has superior performance, the partners tend to loosen control since the IJV's management team has proved its expertise and that helps to maintain harmonious relations with the local parent firms (Child et al. 2005). Similarly, Chen (2004) proposed that over time, tight control activities exercised by foreign parent firms might decrease due to the influence of the IJV management getting stronger at the post-formation stage than it was in the formation stage. This is because it permits the expectations of labor unions, clients, suppliers, and other local stakeholders to be properly considered. This would positively affect worker commitment and productivity and increase the fit between the IJV and its host environment. As a result, this will increase the effectiveness of IJVs and leads to

better IJV performance. Gaining more autonomy in the post-formation stage is also important for an IJV's survival. In foreign markets, IJVs often need to be able to react quickly to fast-changing markets by reducing long decision-making processes and bureaucracy. Supporting the argument for more autonomy for IJV management, Bleeke and Ernst (1991) contend that operating decisions are best made by those who are focused purely on the JV. Yehekel et al. (2004) point out that foreign parent firms are willing to permit more autonomy when their IJVs operate under more certain and stable circumstances. In addition, Nielsen (2007) argues that the venture mature over time and partners are more familiar with each others' idiosyncrasies, thus the uncertainty within transactions decreases. Consequently, intensive control is not necessary. In addition, Dianne (1997) suggests that as the IJV has progressed well, foreign parent firms should have clarified the criteria and time frames for the gradual transfer of control and power to their local partners. As a result, when IJV performance during the formation stage of the IJV lifecycle is positive, foreign parent firms tend to exercise loose control over their IJVs in post-formation stage.

On the other hand, undesirable IJV performance prompts structural instability in control system (Yan, 1999). Poor IJV performance is often caused by at least one of the partner firms failing to achieve its objectives, thus creating stimuli for changing the ineffective existing control system. Yan and Gray (2001b) suggested that a factor that could produce change in an IJV is a shift in IJV performance. When investigating the evolution of IJVs, Child (2002) concluded that over time, foreign parent firms are likely to increase their equity share for the following reasons: a) the need to buy out unreliable partners; b) the unwillingness or inability of local partners to finance IJV expansion. In their study, Brouthers and Bamossy (2006) also found that tighter controls were normally instituted after poor results and/or misdeeds. As a result, when IJV performance in the formation stage of IJV lifecycle is negative, foreign parent firms tend to exercise more control by exercising broad, formal, and tight control over their IJVs in post-formation stage. In summary, we propose that:

Hypothesis 2: When IJV performance has been negative in the formation stage, foreign parent firms tend to exercise formal, broad, and tight control over their IJVs in the post-formation stage of the IJV lifecycle. In contrast, when IJV performance has been positive in the formation stage, foreign parent firms tend to exercise social, narrow, and loose control over their IJVs in the post-formation stage of the IJV lifecycle.

4. Methodology and Results

4.1 Methodology

To test the hypotheses, the study uses a survey research method to collect data for the empirical evidence. In the survey, the questions about joint venture control and performance were collected directly from those involved in IJV operations. The measurement of variables is based on a 5 point-scale. The methods used in this study to analyze the data are description statistics and the Chi-square test. The purpose of the methods is to determine how well an observed set of data fits an expected set of hypotheses. The method is particularly useful to find out whether an IJV control structure which is made up of different elements of the IJV control dimension (formal, social, broad, narrow, tight, and loose) has a normal distribution or whether the structure has been formed under the influence of performance factors.

4.2 Data collection and measurement

The study here is a part of an on-going research project focusing on IJV behavior, strategies, partner selection, control structure, and performance of Finnish firms. The target firms and investments were identified as follows: 1) The FDI data base collected by the project leader starting from the late 1980s based on press releases regarding IJVs published in several Finnish business magazines and newspapers, 2) Annual reports and websites of the 250 largest Finnish firms as reported by the leading business magazines, 3) based on the earlier surveys focusing on IJVs and wholly owned subsidiaries of Finnish firms conducted by the project leader. From the resources, we identified 340 qualifying IJVs formed by Finnish firms since 1985 and in operations until at least 2002. The 340 qualifying IJVs involved 250 Finnish parent firms. Of those 250 firms, several firms were very difficult to contact either because they had been restructured or because they had gone out of business. The aim of contacting the firms was primarily to identify the best informants. In some firms there was no longer anyone employed who had sufficient knowledge to further study. This left a total of 200 Finnish parent firms. Due to time and cost constraints a postal questionnaire and online web survey were used to gather the data.

The participants were those managers who directly involved in the establishment and operation of the IJVs. To enhance the quality of the data, the respondents were contacted by phone in December 2006 to explain the key points of the study and the questionnaires. In exchange for their cooperation with the study and to provide motivation and accurate responses, the respondents were assured of anonymity and were promised a summary report of the findings, and were also entered into a draw for three gifts. Following one reminder at the end of the January 2007, 54 questionnaires were returned at the end of February 2007, from which 5 questionnaires were not usable. Thus, the final sample was 49 IJVs including 40 Finnish firms. The response rate was acceptable 24.84% (Larimo & Rumpunen, 2006). The sample was examined for systematic response bias using *t-tests*. Respondents and non-respondents were compared by

their age, size, international experience, and IJV experience. No statistically significant difference was found. Thus, there was no response bias to be found in the final sample. After taking out the uncompleted questionnaires, the final sample related to 49 IJVs.

Among these IJVs, 45% were established 1988-1995, and 55% 1996-2006; 53 % through acquisitions, and 47% through greenfield investment; 76 % involved 2 partners and 24 % involved 3 partners; 61% were established with an indefinite term, 22% with a duration of less than 5 years, and 17 % stated to have an intended duration of more than 5 years; 41 % had a degree of Finnish ownership of between 10%-49%, 10% had equal ownership, and 49 % had Finnish majority ownership upon establishment; 71% were located in emerging economies, and 29% in developed economies; 63% dealt with industrial products, 27 % with consumer products, and 10 % offered both consumer and industrial products.

All three control dimensions were measured with a 5 point-scale. Based on the list of different mechanisms and focus areas provided, the respondents were asked to assess 1) their method of monitoring and control, and 2) their focus of monitoring and control at the formation and post-formation stages (Cronbach's Alpha=0.89, and 0.92, respectively). The measure of IJV performance was also based on a 5 point-scale, the respondents were asked if they were satisfied with IJV performance on both financial and total performance scales with 1= "very dissatisfied" to 5= "very satisfied" at both formation stage and post-formation stage where Cronbach's Alpha values were = 0.91 and 0.94, respectively.

4.3 Results

4.3.1 Parent firms' control choice and IJV performance in the formation stage of the IJV life-cycle

Performance was measured using seven different subjective measures. Respondents were asked on a 5-point Likert scale, first to weight a suggested set of measures, and then to express their degree of satisfaction with each of the seven measures. The two most important measures of performance were total performance and financial performance. Among 49 respondents, 32 Finnish parent firms (65%) exercised formal, broad, and tight control over their IJVs during the formation stage. The respective mean of the IJVs total performance was 4.6 (with 1= very dissatisfied to 5= very satisfied) and financial performance was 4.3. The remaining 17 Finnish parent firms (35%) exercised other control structure such as social, narrow, and loose control. Those parent firms demonstrate a respective total performance mean of 2.5, and one for financial performance of 2.4. Therefore, formal, broad, and tight control exercised by foreign parent firms in the formation stage of the IJV lifecycle leads to better IJV performance. Also, based on the chi-square test, $\chi^2=16.5$ the result was significant at $P<0.005$ ($df=5$) (see table 1). Thus, the results supported hypothesis 1 for both description statistic and chi-square test.

4.3.2 IJV performance in the formation stage and parent control in the post-formation stage of the IJV life-cycle

According to the respondents, 75% of foreign parent firms (37 firms) were satisfied with the IJV's total performance (mean 4.3) and financial performance (4.1) resulting from IJV operations in the *formation stage* of the IJV lifecycle. Of these 37 foreign parent firms, 95 % foreign parent firms exercised social, narrow, and loose control over their IJVs in the *post-formation stage* of IJV lifecycle. On the other hand, the 25% of foreign parent firms (12 firms), who were not satisfied with their IJV performance in the *formation stage* of the IJV lifecycle, all exercised formal, broad, and tight control over their IJVs in the *post-formation stage* of the IJV lifecycle. In addition, according to a chi-square test $\chi^2=15.27$, the result was significant at $P<0.01$ ($df=5$) (see table 1.). Thus, the results supported hypothesis 2 for both description statistics and chi-square test. So that if IJV performance in the formation stage of the IJV lifecycle has been positive, foreign parent firms tended to exercise social, narrow, and loose control over their IJVs in the post-formation stage of IJV lifecycle. In contrast, if IJV performance has been negative in the formation stage of an IJV's lifecycle, foreign parent firms tend to exercise formal, broad, tight control over their IJVs in the post-formation stage of IJV lifecycle.

All in all, the relationship between the design of the control structure and performance is not just one-way, but rather is reciprocal and dynamic. With an initial control system designed by a foreign parent firms, there will be two situations affecting IJV performance. In the first case, when the performance is negative, foreign parent firms will respond to this situation by exercising more control over IJVs to restore order and make sure that the IJVs achieve planned targets. However, control also carries costs, especially with broad control and tight control. In addition, foreign parent firms may also signal their distrust of local parent firms, by insisting on a lot of procedures and excessive paperwork that may flow from formal control and tight control. Therefore, when IJV performance is positive, foreign parent firms may prefer to exercise less control over IJVs to create trust with local parent firms and to reduce associated costs (see Figure 1.).

5. Contribution and Conclusions

With regard to control in IJVs, research has traditionally been modeled solely by the relative degree of ownership (Mjoen & Tallman, 1997). However, ownership may not be the optimal means of control in every situation and may be but a minor issue in governance. Guide (2001) states that a firm does not need majority equity ownership to exercise managerial control. Sohn (1994: 299) points out that social knowledge may help MNCs reduce dependency on

ownership as means of control over their subsidiaries. In addition, when control of IJVs was discussed separately from the ownership structure, most previous research focused on only one dimension of control, mainly control mechanisms (e.g. Mjoen, 1993; Vryza 1997; Xiansheng, 1998; Yan & Gray 2001a). However, to be able to recognize the control issues within IJV clearly, Geringer and Hebert (1989) and Lu and Hebert (2005) and Raswamy, Gomes, and Veliyath (1998) proposed that future research should examine the multidimensionality of IJV control including control focus, control mechanisms, and control extent, and also the relationship of each one to IJV performance.

The first contribution of the present study to IJV theory is to fill this gap by providing a better understanding of the multidimensionality of parent firm control and each element's influence on IJV performance. In addition, the present study is the first to examine *the change of IJV control* during the IJV lifecycle since Zhang and Li (2001: 342) concluded "how control design of IJVs evolves over time remains unclear". This is important because it examines organizational process. The research of process makes an important contribution because it explains how managers can influence firm performance through organizational control (Chakravarthy & Doz, 1992). In *the relationship between IJV control and performance* the present study points out that the conflicting results from previous studies are, perhaps, because they have assumed a monotonic relationship between control and performance (Fryxell et al., 2002). As it takes one step further away from this approach, the present study proposes that the relationship between IJV control and performance depends both on which lifecycle stage IJVs are at, and on the results of IJV performance during the previous stage. In particular, the present study proposes that when foreign parent firms choose to exercise broad, formal, and tight control at the formation stage of the IJV lifecycle, IJV performance is likely to be positive. In contrast, if foreign parent firms choose to exercise narrow, social, and loose control over IJVs at the formation stage, IJV performance is likely to be negative.

In addition, foreign parent firms will redesign their control exercised over IJVs over time according to IJV performance. In the post-formation stage, when IJV performance is negative, foreign parent firms need to exercise more control over IJVs in an attempt to improve performance. When IJV performance is positive foreign parent firms may reduce their degree of control over IJVs in order to reduce the costs associated with control, and to promote a higher degree of trust, the potential for which had probably already been observed during the initial stage, and evidenced through strong performance. This finding is consistent with Zhang and Li (2001) who report that during IJV development process, IJV performance becomes a motivating force stimulating the evolution of IJV control design. The present study extends this by specifying which particular control structure is needed during the period of such changes. In short, it can be concluded that there is no optimal choice of IJV controls that are stable over time. Control of IJVs needs to be re-adjusted over time in accordance with IJV performance. As a result, this study may help to explain previous conflicting results, such as why in some cases dominant control forms yield better performance while in others they do not but instead minor control or shared prove effective control forms. This finding contradicts Glaister and Buckley's (1998) which maintains that the nature of management control does not vary with the development of IJVs.

This study does have several limitations. First, the sample size of the study is rather small and the analysis based only on data from foreign parent firms. For further studies, researchers could use the framework of this study with a bigger sample size and incorporate the viewpoints of both local and foreign parent firms to study the dynamics of parent firm control. In addition, the study defines an IJV lifecycle as consisting of two stages; further study could test the framework of this study using three or more stages. Finally, although performance is the main motive driving IJV control change, other factors should be taken into account. Future studies may wish to investigate control dynamics during the IJV lifecycle in accordance with the changes in operating environments of IJVs, the changes to parent strategies in IJVs, and the relationship development between local firms and foreign firms.

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Table 1. The results of the study based on chi-square test

Hypotheses	χ^2	DF	Decisions
Formation stage of IJV lifecycle (H1)			
Parent control choice and result in IJV performance	H1: 16.5	5	significant at 0.005
Formal, broad, tight control \longrightarrow	(+) performance		
Post-formation stage of IJV lifecycle (H2)			
IJV performance and change of parent control	H2: 15.2	5	significant at 0.01
(+) performance \longrightarrow	Social, narrow, loose control		
(-) performance \longrightarrow	Formal, broad, tight control		

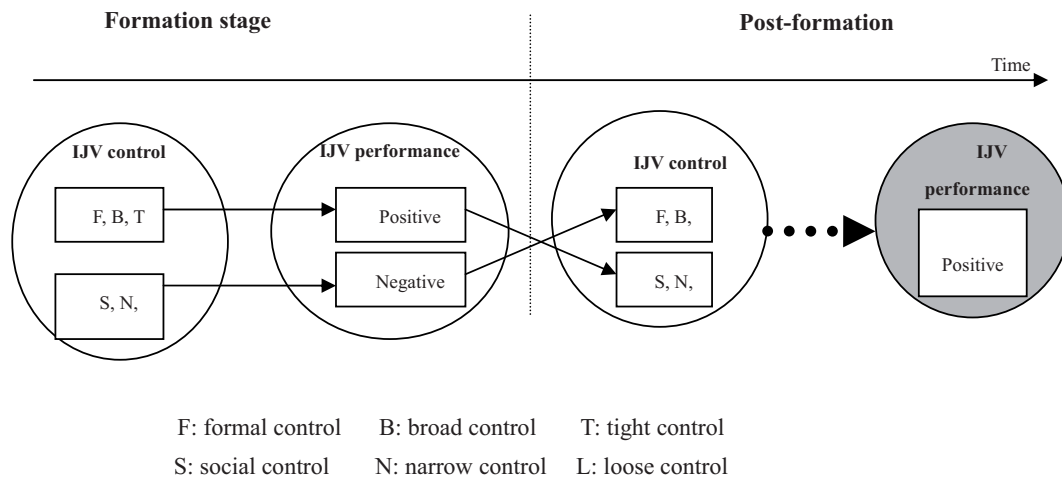


Figure 1. IJV Control model

Foreign Parent Firm Contributions, Experiences, and International Joint Venture Control and Performance

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[Abstract] The paper aims to investigate the influence of parent firms' contributions and prior international joint venture (IJV) experiences on IJV control and performance. IJV control is conceptualized across three dimensions, including control mechanism, control focus, and control extent. The empirical evidence is based on the survey of Finnish firms that have established IJVs with local firms in the 1990s. The results showed that in different groups of contributions, parent firms prefer different control structures. These structures, in turn, have differently influenced IJV performance. The results also reveal that parent firms deployed different control structures in their IJVs according to their prior IJV experience. The more experience parent firms have, the less control they exercise over their IJVs. Besides, foreign firms, which have more experienced in IJVs, have better IJV performance. In addition, the prior IJV experience of foreign parent firms has different influences on total performance and financial performance.

[Keywords] International Joint Ventures; foreign parent; contributions; control; performance

Introduction

Researchers have shown that a majority of international joint ventures (IJVs) fall short of their goal (Luo et al., 2001) since they are difficult to manage (Schuler & Tarique, 2005). Researchers have suggested control problems are one of the primary causes of IJV failures (Groot & Merchant, 2000). Despite the popularity and importance of IJVs and extensive research in the field, it is suggested that we have a limited understanding of how to manage them (Das & Teng, 2001). In particular, most previous studies provide little knowledge about how to control IJVs and their relationship to IJV performance (Geringer & Hebert, 1989). Furthermore, Geringer and Hebert (1989) and Ramaswamy, Gomes, and Veliyath (1998) proposed that future research should deepen IJV control in terms of mechanisms, extent, and focus.

While previous research has not provided evidence directly explaining how parent firms make control structure choices (Groot & Merchan, 2000), it has suggested some possible determinant factors, such as parent firms' experiences (Peng & Health, 1996; Guide, 2001) and their contributions (Blodgett, 1991; Yan & Gray, 1994; Isobe, Makino, Montgomery, 2000). Pangarkar and Klein (2004), and Berrell (2007) suggested that further studies are needed to examine factors that influence IJV control and performance. This paper aims to further analyze the influence of foreign parent firms on their IJV control and performance. In more detail, the paper aims to answer the research question: *How do foreign parent firms' contributions and IJV experiences influence IJV control and performance?*

Conceptualization of Control in IJVs

The international Joint Venture (IJV) is defined as a separate corporation established by two or more partners with an expected proportional share of dividend as compensation (Contractor & Lorange, 1988). Management control refers to the process by which an organization influences its members and its units to work in ways that meet the organizational objectives (Glaister, 1995). In IJV, because there are two or more parties involved, the management

control is complex (Geringer & Hebert, 1989). Furthermore, researchers have acknowledged that the control systems are multidimensional (Kumar & Seth, 1998; Lu & Hebert, 2005; Berrell, 2007). Unfortunately, the existing research tends to focus on only one or two dimensions. In order to be able to capture the complex nature of the IJV and conduct IJV control research thoroughly, this study adopts the multidimensional approach of control developed by Geringer and Hebert (1989).

Control Mechanisms

Control mechanisms are structural arrangements deployed to determine and influence what the members of the organization do (Geringer & Hebert, 1989; Fryxell, Dooley, & Vryza, 2002). Control mechanisms consist of a variety of instruments, including formal and social controls that are available to firms for exercising effective control over their members (Friedman & Beguin, 1971). *Formal control* depends on hierarchies, standards, codified rules, procedures, goals, and regulations that specify desirable patterns of behavior (Das & Teng, 1998). These instruments of formal control are usually agreed upon and imposed by both foreign and local parent firms (Fryxell et al., 2002), such as a board of directors, appointment of key personnel, planning and approval process for capital budgeting and resource allocation, and the lay-down procedures and routines for IJV (Mjoen, 1993; Lu & Hebert, 2005).

Social control is designed to promote expectations and mutual commitments through which IJV managers learn to share the common attitudes and knowledge of the organization (Nonaka & Takeuchi, 1995). Social control refers to various mechanisms, such as informal communication, information exchange and training, mentoring, and personal relationships. Social control develops of a common organizational culture that fosters shared values and norms, without explicitly restricting the behavior of the targeted people through the means of those social controls (Schaan, 1983; Chalos & O'Connor, 1998, Fryxell et al., 2002).

Control Focus

Control focus can be divided into broad control and narrow control (Geringer & Hebert, 1989). In control focus, the partners can choose to have a *broad control* focus and attempt to exercise control over the entire range of the IJV's activities, or they can have a *narrow control* focus and confine their control activities to the performance dimensions they consider to be critical (Geringer & Hebert, 1989; Groot & Merchant, 2000). Child et al. (2005) maintained that, depending on several factors, such as the parent firm's competencies and the criticality of such activities, parent firms may focus their control over activities related to technology in one case but on market-related activities in another case. There are also cases when the parent firms may focus their control on both technology and market-related activities (Child et al., 2005). The areas of control focus consist of marketing, sales, and distribution, procurement, general management and operation, finance and accounting, R & D and development, production and quality, and human resources.

Control Extent

The control extent refers to the degree or tightness of control which is exercised on the venture (Geringer & Hebert, 1989). Control extent consists of tight control and loose control. In *loose control*, the parent firms tend to use only one or two control mechanisms and focus their control on only one or two control areas exercised over the IJVs. Furthermore, the parent firms are more flexible in their evaluation of employees' behavior and their performance. The frequencies of reports that the IJV managers have to submit to the parent firms and the

meetings between the parent firms and the IJV managers are very few. In contrast, the *tight control* tends to be strict with respect to the employee's dress code, punctuality, and cost-consciousness, being detail oriented and precise in operation. Tight control can be effected through any mechanism that provides the partner with a high degree of certainty that the personnel in the IJV will act as the given partner wishes. Tight control is manifest, also, if the IJV staff is held strictly accountable for adhering to a complete set of described actions, such as policies and procedures. Tight is, as well, related to highly frequent and precise reporting (Child et al., 2005).

In sum, IJV control consists of three dimensions mechanisms (formal: **F**; social: **S**), focus (Broad: **B**, Narrow: **N**), and extent (Tight: **T**, Loose: **L**). These three control dimensions produce eight possible control structures, such as Formal, Broad, Tight (FBT), Formal, Broad, Loose (FBL), Formal Narrow, Tight (FNT), Formal, Narrow, Loose (FNL), Social, Broad, Tight (SBT), Social, Narrow, Tight (SNT), Social Broad, Loose (SBL), Social, Narrow, Loose (SNL).

Parent Contributions and IJV Control and Performance

Parent firms contribute to IJVs through their resources. Firm resources include all assets, capabilities, information, and knowledge. Grant (1991) classified that resources of firms include tangible, intangible, and personnel-based sources. The most common areas of contribution in IJVs are technology, financial resources, trained personnel, and trade marks.

Technology

Technological know-how is generally the most scarce resource (Luo et al., 2001). In addition, foreign parent firms are often responsible for supplying technology and know-how to IJVs (Lee et al., 1998). Local parent firms may appropriate the proprietary information, such as recent patents, from foreign parent firms for their own purposes outside of the IJV relationship (Chalos & O'Connor, 1998). Moreover, foreign parent firms are not able to count totally on legal protection, since it has many limitations (Al-Obaidi, 1999), especially when it involves tacit knowledge and skills that are not protected by property laws (Chen, 2004). Therefore, foreign parent firms will protect their technology using certain control focus and mechanisms (Al-Obaidi, 1999, p. 269). Yan and Gray (1994) found that technological resources, such as production knowledge that parent firms bring to IJVs, influence IJV control design. Transaction cost theory suggests that for a high level of transfer of tacit knowledge to IJVs, foreign parent firms will exercise more control, as they are able to demand more control concessions from local foreign parent firms (Lee et al., 1998).

According to Blodgett (1991), tight control over an IJV is necessary for foreign parent firms to transfer critical resources, such as proprietary technologies. This is to curb opportunism and avoid unauthorized technology leakage (Killing 1983; Yan & Gray, 2001). Therefore, a parent who makes extensive contributions of manufacturing resources and know-how will expect a high level of control of operations. Killing (1983) and Hennart (1988) suggested that formal control is more efficient method to reduce the risk of the misuse of technology. Besides, Chen (2004) maintained that in advanced technology IJVs in which technology is provided by foreign parent firms, letting local parent control IJV activities may lead to proprietary information lost to local parents. Therefore, the more technology foreign parent firms contribute to IJVs, the greater the management control they need to achieve (Yan & Gray, 2001).

In other words,

Hypothesis 1: When foreign parent firms are contributors of technology for IJVs, they are likely to exercise broad, formal, and tight control over them.

Financial Resources

Financial capital investment in facilities by foreign parent firms will enhance the capability and quality of IJV products. The new facilities play crucial roles in IJV performance. Besides, with financial capital from parent firms, IJV can afford to recruit and train the best people for IJVs, thus, increasing IJV performance. Having a higher financial contribution position means more power on the board of directors and, thus, enhances more control over the IJVs than the lesser financially contributing partners (Mjoen, 1993). Xiansheng's (1998) study on IJVs in the emerging market of China found that there is a positive relationship between the foreign parent's financial resources contribution and management control in the IJVs. More particularly, when partner firms are the major financial contributors to IJVs, they often demanded control over a wide range of areas and often exercised extensive control over their IJVs (Xiansheng, 1998).

When foreign firms are the main contributors of financial resources to IJVs, Hoon-Halbauer (1994) maintained that IJVs work better when foreign staffs possess dominant management control and hold major decision-making power. Brouthers and Bamossy (2006), studying the post-formation process of IJVs established by western and eastern European firms, find that high performance of IJVs is associated with broad control exercised by foreign parent firms in the early stages of IJV formation. Moreover, Child, Markoczy and Cheung (1994) found that IJVs in emerging markets like China, as minor contributors for IJV resources, local firms are reluctant to make decisions and are afraid of getting personal responsibilities. Thus,

Hypothesis 2: When foreign parent firms are contributors of financial resources to IJVs, they tend to exercise formal, broad, and tight control over their IJVs.

Management Know-How

Other areas of contribution to IJVs are management know-how, a valuable trade mark, and trained personnel. *Management know-how* alone, such as marketing skills, is often consistent with minor ownership (Blodgett, 1991). According to resource dependence theory, the effective use of a foreign parent firm's management know-how often requires exercising critical control in the areas contributed in IJVs (Yan & Child, 2004). Thus, foreign parent firms expect consistency between their relative contributions of knowledge and their relative level of control (Barden et al., 2005). Because their contribution is minor, their control is associated with narrow and loose control. Chung, Gibbons, and Schoch, (2000), studied management control of MNCs in Australia and found that as knowledge flow increases, reliance of financial control decreases and reliance on social control increases. As a result,

Hypothesis 3: When foreign parent firms are contributors of management know-how for IJVs, they tend to exercise social, narrow, and loose control over the IJVs

Trade Mark

A valuable trade mark and brand are often crucial for firms' survival and success. Thus, when IJVs use the foreign parent firm's valuable trade mark, especially in emerging markets, tight control of the IJVs is a vital issue. Furthermore, the influence gained by the foreign parent firm may be derived mainly from their trademark contributed to IJVs (Luo et al., 2001).

Providing their trade mark to IJVs, foreign parent firms often need to effectively locate the interface points, staff and train appropriately, develop social control systems, and monitor the exchange of information to maintain a high quality standard of product and service of the IJVs (Baughn et al., 1997). Schaan (1983) proposed that staffing top management position of the IJV with members from foreign parent firms which will provide a common vision for IJVs as the same as in foreign parent firms. Child (2004) found that the ability of one party to control resources vital for the success of an organization gives it power to control some the particular areas in the organizations. For manufacturing and joint ventures, the most important areas often are quality control and delivery service, and they are often the interests of foreign parent control. As a result,

Hypothesis 4: When foreign parent firms provide trademark to the IJVs, they tend to exercise social, narrow, and tight control over the IJVs.

Trained Personnel

Trained personnel have been cited as one of the important factors for IJV operations, especially in developing countries (Xiansheng, 1998). In IJVs for which foreign parent firms are often responsible for highly trained personnel, and local partners are responsible for other resources for IJV operations, such as local specific knowledge, sharing control with local parent firms is an important vehicle for procuring those firm-specific advantages embedded with local parent firms (Choi, 2001). Thus, when foreign parent firms contribute only trained personnel to IJVs, they do not need to carry out extensive control over the IJVs.

This is because trained personnel are the ones who spread the foreign parent firm's concepts and ensure the IJV runs smoothly, as well as assuring IJV product quality (Baughn et al., 1997). However, in order for trained personnel to utilize their skills and abilities, they have to be placed in the right position in the firms and be managed by talented superiors. Through trained personnel in IJVs, foreign parent firms establish their social control over the IJVs, since these key personnel are in charge of educating and training other staffs of the ventures. As a result, foreign parent firms will need only to be in charge of some important areas, such as human resources or other specific areas in which these trained personnel work. Thus

Hypothesis 5: When foreign parent firms are contributors of highly trained personnel to the IJVs, they tend to exercise social, narrow, and loose control over their IJVs.

Parent Control and IJV Performance

Parental control plays a crucial role in the success of IJVs (Simoin, 1997; Child et al., 2005; Berrell, 2007), especially, when transaction costs are high and partners know little about each other (Pangar & Klein, 2004). Mjoen (1993) found that the right level of control was associated with better performance. Child and Yan (2003) argued that parent control permits the effective use of whatever strategic resources that the parent firms have on the IJVs. O'Donnell (2000) proposed that the fit between parent resource strategy and the subsidiary control mechanism can help the subsidiary achieve objective performance. Johnston (2005) studied the relationship between headquarters and subsidiaries and found that different subsidiary tasks were associated with different levels of subsidiary autonomy. In other words, when parent firms have different contributing strategies to their subsidiaries, they have different levels of control over them. Dymaza (2002) analyzed the successes and failures of IJVs in the developing countries. He pointed out that parent firms, which make the most contribution to marketing strategy, such as product differentiation, segmentation of markets,

promotion, and selling, will strive to control these activities in the IJVs. Lorange et al. (1986) maintained that through exercising a proper IJV control structure, foreign parent firms can make sure that their strategies are effectively implemented and their resources are efficiently utilized for enhancing the IJV performance. Thus, we expect that

Hypothesis 6: Foreign parent firms that exercise control structures accordance to their contributions as suggested in hypothesis 1, hypothesis 2, hypothesis 3, hypothesis 4, and hypothesis 5 will have better IJV performance

Parent Experience and IJV Control and Performance

A parent firm's prior experience in managing IJVs plays a significant role in IJV control (Guidice, 2001). Guidice (2001) suggested that when foreign parent firms engage in new IJVs, they search for their organizational memories of past relationships with similar characteristics and use that information in designing the current IJV control structure. Operating in foreign markets, experience in a particular host country may be very valuable because this allows foreign parent firms to cope better with uncertainties. Furthermore, when foreign parent firms are familiar with the local environments and cultures, they can exert considerable control over the IJVs and still obtain local knowledge (Calantone & Zhao, 2001).

In addition, when IJV partners are new to each other, the foreign parent firms may be unsure of the local partner's capability. The risks of opportunism may be significant in terms of leakage of proprietary technology. Therefore, when foreign parent firms have no prior IJV experience, they tend to exercise greater control over the IJV's decision making in order to safeguard their interests and enhance the IJV's performance (Pangarkar & Klein, 2004). In addition, Berrell (2007) maintains that inexperienced parent firms are not ready to exercise social mechanisms of control. According to Cullen et al. (2001), parent firms that lack IJV experience need to use excessive control. As a result, they may use all control mechanisms and focus on all the areas of IJV activities. As a result,

Hypothesis 7: The less IJV experience the foreign parent firms have, the more likely they exercise broad, formal, and tight control over the IJVs, the better IJV performance.

In contrast, as a foreign parent firm gains more experience with a local parent firm through an IJV, its philosophy towards IJV management moves toward less control (Johnson et al., 2001). A partner's opportunistic behavior is an important source of risk in IJVs. Earlier relationships with the same partners tend to reduce the possibility of opportunism because such behavior may jeopardize present and future relationships (Parkhe, 1993). Excessive control in the latter stages of an IJV development is counterproductive to IJV success. Besides, excessive control may be helpful to minimize risk (Anderson & Gatignon, 1986), while it does not maximize returns. Due to the increasing conflict between foreign and local parent firms (Lorange et al., 1986), a repeated relationship is often evidence of some degree of satisfaction with a partner. Foreign parent firms' prior experiences in managing IJVs result in the need for less control (Yan & Gray, 2001).

In the same vein, Cullen et al. (2001) found that IJV experiences help to reduce Anglo and Japanese parents' need for extensive control over their IJVs. Moreover, Makino and Delios (1996) found that experience in foreign markets enhanced parent firms' IJV capabilities and resulted in higher performance. In addition, when parent firms have good knowledge of how to control IJVs, they would be able to achieve IJV goals without exercising heavy control that increases transaction costs and hinders trust building. As a result,

Hypothesis 8: The more IJV experience the foreign parent firms have, the more likely they exercise narrow, social, and loose control over their IJVs, the better IJV performance.

Methodology and Results

This study adopted a survey research design to fit the exploratory nature of the research. In the survey, the questions about joint venture control and performance were collected directly from those involved in IJV operations. This made direct interviews very costly in terms of time and money and impractical to achieve the desired sample size. The measure of variables is based on a 5-point scale. The methodologies used in analysis relationship between variables in IJVs are description statistics (e.g. Hennart, Roehl, & Zietlow, 1999; Glaister & Yu, 1994) and the Chi-square test (e.g. Beamish & Inkpen, 1995; Bloggett, 1991; Glaister, 1995; Nguyen & Larimo, 2008).

The purpose of the methods is to determine how well an observed set of data fits an expected set of hypotheses. These methods are used to examine the differences with categorical variables and the relationships between influenced factors and IJV control structures and IJV performance. The method is particularly useful to find out whether an IJV control structure (mechanism, focus, and extent) has a normal distribution or the structure has formed under the influence of parent's contributions and experiences.

The target firms and investments were identified as follows: 1) the FDI data base collected by the project leader starting from late 1980s based on press releases regarding IJVs published in leading business magazines and newspapers and 2) annual reports and websites of the 250 largest Finnish firms; 3) based on the earlier surveys focusing on IJVs by Finnish firms. From the resources, we identified 340 IJVs qualifying as IJVs formed by Finnish firms since 1988 and in operations at least until 2002. The qualifying 340 IJVs involved 200 Finnish parent firms. Among these 200 firms, several firms were very difficult to contact, either because they had been restructured or gone out of business. The firms were contacted to find out the right informants. In some firms, there was no longer anyone with sufficient knowledge required for the study. This left a total of 161 Finnish parent firms. Given time and cost constraints, a postal questionnaire and online web survey were used to gather the data.

The participants were managers who were directly involved in IJV's establishment and operations. To enhance the quality of the data, the respondents were contacted by phone in December 2006 to explain the key points of the study and the questionnaires. In exchange for their participation in the study and to provide motivation and accurate responses, the respondents were assured of anonymity and were promised a summary report of the findings and participation in a drawing for gifts. After reminders at the end of the January and February of 2007, 54 questionnaires were returned from which 5 questionnaires were not usable. Thus, the final sample was 49 IJVs, including 40 Finnish parent firms. The response rate was approximately 24,84.

The sample was carefully examined any systematic response bias using T-tests. Respondents and non-respondents were compared across their age, size, international experience, and IJV experience. No statistical significant difference was found. Thus, there was not a response bias to be found in the final sample. Among these IJVs, 45% were established in 1988-1995, and 55% in 1996-2006; 53 % through acquisitions, and 47% through greenfield investment; 76 % involved 2 partners and 24 % involved 3 partners; 61% were established with an indefinite duration, 22% with a duration of less than 5 years, and 17 % stated having a duration of more than 5 years; 41 % had a degree of Finnish ownership of

between 10%-49%; 10% had equal ownership; and 49 % had a Finnish majority ownership at establishment; 71% were located in emerging economies, and 29% in developed economies; 63% dealt with industrial products, 27 % with consumer products, and 10 % offered both consumer and industrial products.

All three control dimensions were measured with a 5-point scale. Based on the list of different mechanisms and focus areas provided, the respondents were asked to assess their 1) method of monitoring and control, and 2) their focus of monitoring and control (Cronbach's Alpha=0.92). The measurement of parent contribution was based on a 5-point scale with 1= "not important at all" to 5= "very important" where Cronbach's Alpha = 0.88. The measure of IJV performance was also based on a 5-point scale; the respondents were asked if they were satisfied with IJV performance on both financial and total performance scales with 1= "very unsatisfied" to 5= "very satisfied" where Cronbach's Alpha = 0.94. The results of the survey are presented in Table 1.

Table 1. The Results of Survey

Independent Variables	Dependent Variables							
	Control						Performance	
	FBT	SNL	SBT	FNL	FNT	SNT	Financial P. (mean)	Total Perf. (mean)
<i>Contributions</i>								
Finance	25	1	8	2	0	0	3,8	4
Technology	31	0	6	3	0	0	4,2	4,2
Management K H	2	15	1	13	0	0	3,5	3,2
Trademark	2	0	1	0	3	13	2	2,6
Trained personnel.	1	11	3	4	0	0	3,8	3,9
<i>Experiences</i>								
No experience	9	1	2	1	0	0	1,2	1,9
1-4 years	12	3	1	0	0	0	3,1	3,9
5-10 years EXP	2	11	0	1	0	0	4,7	4,1
More than 10 years	0	5	0	1	0	0	4,8	4,3

From Table 1, we can see that there were 6 different control structures exercised by foreign parent firms, including FBT, SBT, FNT, SNL, FNL, SNL. Besides, most foreign parent firms contribute technological (40/49) and financial (36/49), management (31/49) resources to IJVs. In addition, most foreign parent firms have from one to four years experiences in IJVs (16/49), followed by the group of parents that have from 5-10 years of experiences (14/49).

From Table 2, we can see that the results support H1, H2, H3, H4, H5. When foreign parent firms contributed financial and technological resources to IJVs, they preferred FBT control structure over their IJVs at, respectively, the rates of 69% (25/36) and 77.5% (31/40)

Table 2. Results of Relationship between parent Contribution and Control Structure in IJVs

Contribution	Finance (H1)	Technology (H2)	Management (H3)	Trade Mark (H4)	Personnel (H5)
Control	FBT	FBT	SNL	SNT	SNL
Performance	4,5	4,7	3,5	3,1	4,4
Df	5	5	5	5	5
χ^2	79,7	124	47,8	38,3	29
Result(n=49)	Sig. at p<0.000	Sig. at p<0.000	Sig. at p<0.001	Sig. at p<0.001	Sig. at p<0.001

In addition, when parent firms are the main contributors of management know-how, trademark, and trained personnel to IJVs, they were preferred to SNL (48%), SNT (68%), SNL (58%). In respect to the relation between foreign parent contributions, IJV control and performance, the result of the empirical from Table 2 and Table 3 showed support for H6. When foreign parent firms are the main contributor of financial and technological resources to IJVs, FBT control exercised by foreign parent firms lead to IJV performance 4.5 and 4.7, respectively. These performances (4.5 and 4.7) are higher than those of other groups with other control structures with a mean of 2.8 and 3.2. (with 1= total unsatisfied; 5= total satisfied) see table 2 and table 3.)

In addition, the results of the Chi-square test also confirmed the significant results with $df = 5$ at $p < 0.000$ supported for H1, H2, H3, H4, H5 about the relationship between parent contribution, control, and the IJV's performance. Regarding H6, the results show that all foreign parent firms that adjust their control structures according to the level of their contribution have means of IJV performance above 3,1 and up to 4,7 (see Table 2). On the other hand, foreign firms that did not adapt their control structures according to the level of their contributions have means of IJV performance 1.8. Besides, based on the Chi-square test, $\chi^2 = 17.7$, the result of H6 was significant at $p < 0.005$ ($df=5$). Thus, the results supported H6.

The Influence of IJV Experience of Parent Firms on IJV Control and Performance

The results of the empirical data from Table 3 confirm H7 and H8 that when foreign parent firms have no or less than 4 years IJV experience, they preferred FBT (69% and 75% respectively) control over their IJVs. On the other hand, when they have 5 years to 10 years or more than 10 years experience, they preferred SNL control (79% and 83% respectively) Concerning the relationship between foreign parent's IJV experience, IJV control and performance, the result from the Table 2 and Table 3 supported hypotheses 7 and 8. In particular, when foreign parent firms have no experience, they exercised FBT control over the IJVs leading to mean of IJV total performance 2,7, which is higher than all structures of IJV control (in no experience category) with means of total IJV performance 1,9. Similarly, when foreign parent firms have 1 to 4 years of IJV experience, with FBT control, IJV total performance is 4,4, which is higher than the mean of IJV total performance of all structures of control 3, 9.

Table 3. Relationship between Foreign Parent's IJV Experience, IJV Control and Performance

Experience (H7, H8)	No prior IJV experience	1-4 years	5-10 years	More than 10 years
Control	FBT	FBT	SNL	SNL
Total Performance (mean)	2, 7	4, 4	4, 6	4, 7
Df	5	5	5	5
χ^2	28	57	47	30
Results(n=49)	Sig. at p<0.000	Sig. at p<0.000	Sig. at p<0.00	Sig. at p<0.00

When foreign parent firms have 5-10 years experience and more than 10 years IJV experience with SNL control structure, IJVs total performance were 4,6 and 4,7 ,which are higher than mean of total IJV performance of all groups in the same category (4.1 and 4.3 respectively) The Chi square test of the relationship between parent IJV experience, IJV control, and IJV performance also confirmed the support for hypotheses 7 and 8. In addition, the result showed that the more parent firms have experience in IJVs, the more they are satisfied with their IJV performance. Parent firms who have more than 10 years IJV experience are often more satisfied with IJV performance than that of parent firms that have 5 to 10 years >1-4 years> no experience (see Table 1 and Table 3).

In addition, parent firms that have no experience were more satisfied with total performance (mean: 1,9; with 1 = total unsatisfied to 5 = totally satisfied) than with financial performance (mean: 1,2). Similarly, parent firms that have experience in IJVs from 1-4 years were more satisfied with total performance of IJVs (mean: 3,9) than with financial performance (mean: 3,1). In contrast, parent firms that have experience in IJVs from 5 to 10 years were more satisfied with their IJVs financial performance (mean: 4,7) than that with total performance (4,1). Parent firms that have more than 10 years IJV experience were also more satisfied with the financial performance of their IJVs (mean: 4,8) than that of total performance (4,3). In sum, less-experienced parent firms are more satisfied with total performance than with financial performance. More-experienced parent firms are more satisfied with financial performance than with total performance.

Conclusion

The study showed that in different groups of contributions, parents prefer different structures of control, and these have different influences on IJV performance. Foreign parent firms are likely to exercise broad, formal, tight control over IJVs when they are the key suppliers of technology and financial resources and lack IJV experience. In contrast, foreign parent firms will use narrow, social, and loose control in IJVs if they have experiences in IJVs in foreign markets. The findings confirm that most foreign parent firms want a high level of control that is consistent with their bargaining power, which results from their contribution to IJVs (Calantone & Zhao, 2001). In respect to the influence of IJV experience on control, the findings confirm the results from Gray and Yan (2001) that more IJV experience should result in less control.

The findings of this study contradict with the results by Makino and Delios (1996). They found that when foreign parent firms accumulate more experience, they become less reliant on local parent firms and, thus, exercise more control over their IJVs. In addition, the study extends previous studies by specifying that not all experienced firms have exercised control in

the same ways, but the more experienced firms prefer to exercise less control over their IJVs. Regard to the IJV performance, it is higher in the cases in which foreign parent firms have had more than 5 years IJV experiences and exercised social, narrow, and loose control over their IJVs. With foreign parent firms that have less than 4 years IJV experience, IJV performance is higher if foreign parent firms exercise formal, broad, and tight control. In respect to a foreign parent's contribution to IJVs, the results indicated that foreign parent firms that have provided essential technological and financial resources for IJVs are more satisfied with IJV performance when they exercised formal, broad, and tight control over their IJVs.

The major contribution of this study for managers is that it offers an useful working framework to guide managers on how to deploy their control in their IJVs to gain high IJV performance and to protect the core technology from the risk of appropriation by local parents and of leakage to their competitors. This study has provided an important continuation to current joint venture theory on control perspective. It brings new insights about the way parent firms' contributions and experience influence the joint venture management, resulting in joint venture performance.

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