

# Do Partners' Differences Affect International Joint Venture Control and Performance?

Ph D Candidate, Researcher Nguyen, Huu Le  
Marketing Department, University of Vaasa  
PO Box 700, 65101 Vaasa, Finland  
Email: nghl@uwasa.fi

---

## Abstract

The paper aims to investigate influence of partners' differences on international joint venture (IJV) control and performance. Partners' differences refer to their perceiving of differences in cultures, objectives in entering IJVs, and partners' business relatedness to IJVs. IJV control is conceptualized across three dimensions: mechanism, focus, and extent. The empirical evidence is based on the survey of Finnish firms having established IJVs with local firms in the 1990s. The results showed that the higher partners' perceived differences with their local counterparts the more likely they exercise formal, broad, and tight control over their IJVs. The results also indicate that in case of high differences between partners, formal, broad and tight control by foreign partners lead to better IJV performance. In case of low differences between partners, social, narrow, and loose control by foreign partners lead to better IJV performance.

*Key words:* International Joint Ventures, partners' differences, control, and performance.

---

## 1. Introduction

International joint ventures (IJVs) are increasing their important roles in global business (Ding, 1997). However, researchers have pointed out that IJVs eventually break up from between 30% and 70% of total (Geringer & Hebert, 1991; Yaheskel, Newburry & Zeira, 2004; Hennart, Kim & Zeng, 1998). Some authors have suggested that control problems are one of the primary causes of IJV failures (i.e. Groot & Merchant, 2000). Problem occurs in IJVs control due to the difficulties in managing IJVs from the present of two or more parents (Inkpen & Beamish, 1997). Many times, 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 failure in cooperation (Child & Yan, 2003).

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 three dimensions 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 (Geringer & Hebert, 1989; Blodgett, 1991; Werner, 2002) such as culture (Hennart & Larimo, 1998), and their motives (Calantone & Zhao, 2001). Chang and Taylor (1999), who studied control of 107 American and Japanese 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; O'Connor, 1995; Lau, Low, & Eggleton, 1995). Under this puzzle, further research is needed to investigate the effect of cultural differences on IJVs (Pothukuchi et al., 2002).

Furthermore, partners are from different countries and therefore, often have different goals in entering IJVs. Luo and Park (2004) suggested the incongruence goals between partners lead to lower IJV performance. The existing research does not show how firms can handle the differences in partner's goals in joint venturing lead to increase IJV performance. Another potential factor might influence IJV control and performance is the business relatedness between partners and to IJVs, which has received considerable attention in IJV research. Some studies have focus 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 have been inconclusive (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 of the factors that might influence IJV control and performance in the context of cultural differences, motive differences, 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 IJV control and performance. The general research question is *“How do partners' differences influence IJV control and performance?”* In more detail, the paper is to answer the questions:

- 1) How do partners' perceiving differences in management style, joint venturing objectives, and business relatedness affect their control in IJVs?
- 2) 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 adopted 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 of 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. As one step further, this paper points out how parent can cope with the differences through their control strategies, leading to better IJV performance.

*International Joint Venture* regards as separate corporation by two or more partners with an expected proportional share of dividend as compensation (Contractor and Lorange, 1988). An IJV involves a trade off between the benefits of additional opportunities and the costs of increasing managerial complexity (Killing, 1983), or ambiguous control (Stopford & Wells, 1972)

*Partner's differences* refer to the differences in businesses, objectives of entering to the joint ventures, and the partner's management style.

*IJV control* refers to the influence of foreign partners to IJV operation.

***IJV performance*** is the achievement of goal set by parent firms is and evaluated from 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 IJV total performance and financial performance are used to in investigate performance of IJVs.

In the following sections, I conceptualize the IJV control along three dimensions including control mechanism, focus, and extent. Subsequently, I develop several hypotheses regarding the influence of partners' differences on IJV control structure and IJV performance. Eventually, I discuss the methodology and the results of the study. Finally, I conclude the paper with implications for researchers and managers, and indication of some opportunities for future research.

## **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, 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's (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 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 foster 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 & 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 on 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 critical 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; detail oriented, 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 procedure. 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; Social), focus (Broad, Narrow), and extent (Tight, Loose). These three control dimensions produce 8 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).

**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       |                 | 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                                 |
| O'Connor (1997)                     | 28          | South Korea  | M               | Not provided           | Survey              | Self selection, socialization              | Culture & Budget control  |
| Mjoen & Tallman (1997)              | 102         | C-N          | C-S             | Not provided           | Survey              | Specific activity control                  | Strategic resources, equity, control and performance              |
| Kumar & Seth (1998)                 | 64          | US           | M               | Prior to 1992          | Survey              | Control mechanism                          | Strategic interdependence, environmental uncertainty, and control |
| 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                                     |

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

| Author                             | Sample Size | IJV Location     | Industrial Type | IJV establishment Time | Data Collection              | Concept of Control                   | Areas of Focus  |
|------------------------------------|-------------|------------------|-----------------|------------------------|------------------------------|--------------------------------------|---|
| Luo, Shenkar, & Nyaw (2001)        | 295         | China            | M               | Not provided           | Survey                       | Specific and overall control         | Relationship between dual parent control and IJV performance  |
| 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'Connor (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 & Hébert (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          |                  | C-S             | Around 1997            | Survey                       | Strategic operations                 | Parent control, objectives, IJV Performance                   |
| Meschi & Riccio (2008) differences | 234         | Brazil           | C-S             | 1973-2004              | Interviews<br>Secondary data | na                                   | Country risk, national cultural differences, and IJV survival |
| C-N: Cross Nations                 |             | M: Manufacturing |                 | C-S: Cross Section     |                              |                                      |   |

### **3. Partners' differences and IJV control and performance**

Partners coming to joint venturing differ in their businesses, objectives of forming, and management style. IJVs. IJVs are usually experienced management difficulties when partners come from different backgrounds working together (Wang et al., 1999). Thus, establishing control over the IJVs becomes crucial for IJV operations and therefore, having direct effect to IJV performance.

#### *3.1. Management style*

Foreign and local parent firms differ in 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 organizational cultural distant partners are, the greater the differences in their organizational and administrative practices, employee expectations, and interpretation of and response to strategic issues (Kongut & Sing, 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 conflict 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 from long negotiate process and delay in decision making process, foreign partners may need to exercise

broad and tight control over the IJVs. In addition, to avoid misunderstanding and misleading in the IJVs, partners are required to establish clear hierarchical control by creating formal control over the IJVs. According to Egelhoff (1984), the greater organizational cultural distance between foreign and local parent firms, the greater need in exercise formal control over the IJVs. As a result, it can be expected that:

**Hypothesis 1:** The higher management orientation differences between foreign and local partners, the more likely foreign partners exercise broad, formal, and tight control over the IJVs.

### *3.2. Objectives of entering to IJVs*

Partners from different firms might have different objective of entering IJVs. According to Harrigan, (1985), partners firms form IJVs to generate internal benefits, competitive benefits, and strategic benefits. From the local government perspective, IJVs are often means to protect local firms and to foster the development of local economy and industry (Makino, 1995). Previous researchers suggested that objectives of parent firms determine their control 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 high, these often result in partners' conflicts in behaviors, leading to misunderstandings and interactive problems (Pothukuchi et al., 2002). Killing (1983) proposed that IJV work the most effectively when they avoid the coordination costs of shared management. Coordination costs often occur when there is the constant need for communication, shared decision-

making, and ongoing negotiations (Gulati & Singh, 1998, Barden et al., 2005). These often lead to time consuming and lower IJV performance. Thus, when foreign and local partners' objectives are differences, foreign partners need to impose broad and tight control over their IJVs. In addition, as partner's expectation are differences, a precise procedure and guides of IJVs operations is needed, leading to the exercising of formal control of the foreign partners. As a result, it can be expected that

**Hypothesis 2:** The higher the objective differences between foreign and local partners, the more likely foreign partners exercise broad, formal, and tight control over the IJVs.

### *3.3. Partners' business relatedness*

Partner's business relatedness is as the nature of the business activities of partners relative to those performed by the IJVs (Merchant & Schendel, 2000). Firms are in the same industry when they joint venturing, the ventures are able to learn from both partners. IJV control is therefore designed to support IJVs to learn from their parents. Thus, when partners are similar in their business, less control needed to leave room for learning in IJVs to take place. This is because similarity between business activities of the parent and the IJVs leads to increase the economies of scale and scope by increasing learning opportunities and reducing production cost. Therefore, partners should let the IJVs to take full advantages of this similarity, and learning opportunities by exercise narrow and loose control over their IJVs. In addition, previous researchers pointed out that social control promote more learning in the ventures (Inkpen & Beamish, 1997). On the other hand, the management of joint venture becomes critical when the new

business is unrelated to a firm's existing operations (Kogut, 1988). In the new business that is not familiar with the partners, to follow with the situations and to make sure that new business will develop in the desired direction, partners are required to work closely with IJV management teams. Thus, formal, broad, and tight controls are needed. As a result, it can be expected that:

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

### *3.5. Partner's differences and IJV control and performance*

Child et al. (2005) maintain that control is critical for the successful management and performance of strategic alliance. 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.

To achieve the overall objectives in the IJVs, partners have to ponder between 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 dissolution of IJVs (Meschi & Ricio, 2008). Lorange et al. (1986) maintained that by exercising formal control in their dealing with 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 enhancing the IJV performance. In contrast, 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 case of partners are differences in their businesses, and objectives. In addition, broad control is crucial role 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 result of hypothesis 1 to hypothesis 3 we expect that:

**Hypothesis 4a:** Formal, broad, and tight control by foreign partners lead to better performance in case of high differences between partners

**Hypothesis 4b:** Social, narrow, and loose control by foreign partners lead to better performance in case of low differences between partners

## 4. Methodology and results

### 4.1. Method

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 (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 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 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 parent's differences and business relatedness. Similarly, the method evidences whether or not IJV performance is influenced by the IJV control structure.

### *Sample description*

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; 3) based on the earlier surveys focusing on IJVs and WOS by Finnish firms conducted by project leader. From the resources, we identified 340 IJVs qualifying 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 those managers who directly involved in IJVs 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 participant 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 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 not usable. Thus, the final sample was 47 IJVs including 40 Finnish parent firms. The response rate was a round 24 %. 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 different was found. Thus, there was not response bias to be found in the final sample. Among the 47 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 less than 5 years, 17 % more than 5 years; 41 % of 10%-49% Finnish ownership, 10% of equal ownership, 49 % of 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 the appendix 1.

#### *4.2. Results and analysis*

## Partners' differences and IJV control

The result of the survey was presented in table 2.

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

| Hypotheses                                  |                          |                          | $\chi^2$ | DF | Results              |
|---|--------------------------|--------------------------|----------|----|----------------------|
| <b>Partner's differences</b>                |                          | <b>Control structure</b> |          |    |                      |
| H1: High management orientation differences |                          | Broad, Formal, Tight     | 13.01    | 5  | Significant at 0.05  |
| H2: High objective differences              |                          | Broad, Formal, Tight     | 15.27    | 5  | Significant at 0.01  |
| H3: High business relatedness               |                          | Social, Narrow, Loose    | 17.01    | 5  | Significant at 0.005 |
| <b>Partner's differences</b>                | <b>Control structure</b> | <b>Performance</b>       |          |    |                      |
| H4: High                                    | Broad, Formal, Tight     | +                        | 15.32    | 5  | Significant at 0.01  |
| Low   | Social, Narrow, Loose    | +                        | 12.91    | 5  | Significant at 0.05  |

Most respondents regarded the same countries with the same level of the differences like Estonia, Russia, China, with very differences in management orientation with Finland (with mean of 1.5, with 1=very different and 5=very similar). Concerning the perception of objective of entering to IJVs, most respondents regard their partners who come from emerging economies with conflicting objectives (with a mean of 4.1; where 1=strongly disagree and 5= strongly agree) and developed economies with lower level of conflict in objectives of entering IJVs (mean of 2.2).

The most commonly adopted control structure by Finnish partners in the reviewed IJVs was formal, broad, and tight control at 26/47 which accounts for 55.32%. With respect to Hypothesis 1, over 70% of Finnish partners exercised formal, broad, and tight control when they perceiving high organizational cultural differences with local partners. Less than 15 % of Finnish partners exercised social, narrow, and loose control, and the rest about 15 % 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,  $\chi^2=13.01$  the result significant at  $p<0.05$  ( $df=5$ ). Thus, the result supported H1. In hypothesis 2 over 75 % Finnish partners used formal, broad, and tight

control in when they perceived high objective differences with the local partners. Based on the chi-square test,  $\chi^2 = 15.27$  the result was significant at  $p < 0.01$  ( $df=5$ ) (see table 2). Thus, the results supported H2. Regarding the Hypothesis 3, over 90% of Finnish partners exercised formal, broad, and tight control when they perceiving high business relatedness with local partners and with IJVs. About 5 % of Finnish partners exercised formal, narrow, and loose control, and the rest about 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 H4

### **Partners' differences and IJV control and 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 2.9 and the total performance of IJV was 3.6. (1=very unsatisfied to 5=very satisfied). This shows that Finnish parent firms are some what more satisfied with IJV total performance than IJV 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,  $\chi^2= 15.32$  the result was significant at  $p < 0.01$  ( $df=5$ ) (see table 2). Similarly, when Finnish partners perceived low differences with their local partner, they also seem to be more satisfied with IJV performance (with

mean of performance: 3.56) when exercising narrow, social, and loose control over their IJVs, than in the cases of using other control structures in IJVs (with mean of performance: 2.47). Based on the chi-square test,  $\chi^2 = 12.91$  the result was significant at  $p < 0.05$  ( $df=5$ ) (see table 2). Thus, the results supported H4

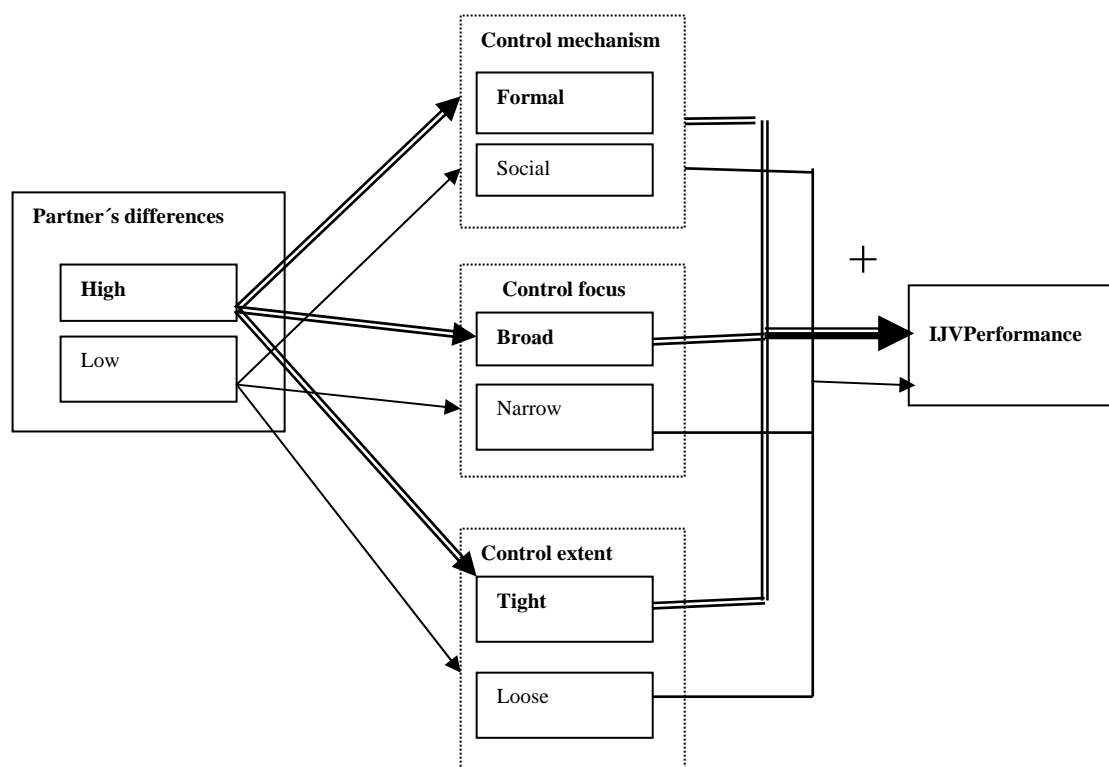
## 5. Conclusions

The study investigated whether or not partner's differences influence IJV control and performance. Parents' differences are categorized to differences in business relatedness, objective of entering IJVs, and management orientations. 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 the survey of Finnish firms that have established IJVs with local firms in the 1990s. The results showed that partners' differences have strongly influenced IJV control and thus, having influences on IJV performance. The results reveal that high differences partners perceiving from each other require formal, broad, and tight control exercised over their IJVs. The results, in addition, indicate that in the case of high differences between partners, formal, broad and tight control by foreign partners lead to better IJV performance. In contrast, in the case of low differences between partners, social, narrow, and loose control by foreign partners lead to better IJV performance.

This study has provided an empirical framework (figure 1) as an important continuation to current joint venture theory on control perspective. It provides new insights into the way partners coping with internal uncertainty caused by partner's differences, resulting in joint venture performance. The findings extend the existing

research and provide greater contribution to understanding of the phenomenon of international joint venture control

The study also has some limitations due to its small sample size and the focus of foreign in the study from only one country-Finland. In addition, because IJVs change over time and the partner's differences may also get lower and lower over time, it is interesting to know how IJV control and performance change in respectively. Researchers could use the framework of the present work with a bigger sample size and foreign parent firms from several countries. Finally, it would be worth researching if control of the IJVs functioning in the emerging markets differs than that of those located in the developed markets



**Figure 1.** The final framework of the influence of partners' differences on IJV control and performance

## REFERENCES

- Balakrishnan, S.& Koza, M. P. (1993). Information Asymmetry, Adverse Selection, and Joint Ventures. *Journal of Economic Behavior and Organization*, 20 (1), 99-117.
- Barden, J. Q., Steesma, H. K. & Lyles, M. A. (2005). The influence of parent control structure on parent conflict in Vietnamese international joint ventures: an organizational justice-based contingency approach, *Journal of International Business Studies*, 36, 157-174.
- Beamish, P. W. & Banks, J. C. (1987). Equity joint ventures and the theory of the multinational enterprise, *Journal of International Business Studies*, summer, 1-16.
- Beamish, P. & Delios, A. (1997). Improving joint venture performance through congruent measures of success, *Cooperative Strategies: European Perspectives*, New Lexington Press: San Francisco, 103-127.
- Blodgett, L.L., (1991). Factors in the instability of international joint ventures: An Even History Analysis, *Strategic Management Journal* 13, 475-481.
- Buckley P J Glaister K W, & Husan, R (2005) International joint ventures: an examination of the core dimensions. *Journal of General Management*, 30 (4), 43-72
- Calantone, R. J. & Zhao, Y. S. (2001). Joint ventures in China: A comparative study of Japanese, Korean, and U.S. partners, *Journal of International Marketing*, 9 (1), 1-23.
- Chalos, P. & O'Connor, N. G. (2004). Determinants of the use of variations control mechanisms in US\_Chinese joint ventures, *Accounting, Organizations and Society* 29, 591-608.
- Chang, E. & Taylor, M. S. (1999). Control in Multinational Corporations: The Case of Korean Manufacturing Subsidiaries, *Journal of Management*, 25 (4), 541-565.

- Child, J., Markoczy, L., & Cheung, T. (1994). Managerial adaptation in Chinese and Hungarian strategic alliances with culturally distinct foreign partners, *Advances in Chinese Industrial Studies* 4 (211-231).
- Child J. & Yan Y. (1999). Investment and Control in International Joint Ventures: The Case of China, *Journal of World Business*, 34 (1): 3 -15.
- Child, J. & Yan Y. (2003). Predicting the performance of international joint ventures: an investigation in China, *Journal of Management Studies* 40 (2), 0022-2380.
- Child, J., Faulkner, D., & Tallman, P. B (2005). *Cooperative Strategy*. Oxford University Press, 215-247.
- Choi, C. B. & Beamish, P. W. (2004). Split management control and international joint venture performance, *Journal of International Business Studies*, 35, 201-215.
- Chow, C. W., Shields, M. D., & Chan, Y. K. (1991). The effects of management controls and national culture on manufacturing performance: An empirical investigation, *Accounting, Organizations and Society*, 16 (3), 209-226.
- Contractor, F. & Lorange, P. (1988). Why should firms cooperate? The strategy and economics basic for cooperative ventures, In Farok J. Contractor and Peter Lorange, editors, *Cooperative Strategies in International Business*. New York: Lexington Books.
- Das, T. K. & Teng, B.-S. (1998). Between trust and control: developing confidence in partner cooperation in alliances, *Academy Management Review* 23 (3), 491-512.
- Dianne, J. (1997). Culture and control: The tale of East-West joint venture, *Management International Review*, 37(1), 127-147.
- Ding, D. Z. (1997). Control, conflict, and performance: A study of U.S.-Chinese joint ventures, *Journal of International Marketing* 5 (3), 31-45.

- Duan J, Chuanmin S. (2007) Ownership, control, and performance of U.S.-China joint ventures: A longitudinal study. *Journal of Applied Management and Entrepreneurship* 12 (1) 25-35
- Egelhoff, W. G. (1984). Patterns of Control in U.S, UK, a European Multinational Corporations, *Journal of International Business Studies*, fall 1984; 15: 73-83.
- Friedman, W. G. & J. P. Beguine (1971). *Joint International Business Ventures in Developing Countries*, Columbia University Press, New York.
- Fryxell, G., Dooley, R. S., & Vryza, M. (2002). After the ink dries: The interaction of trust and control in US-based international joint ventures, *Journal of Management Studies* 39 (6), 0022-2380.
- Geringer, J. M. & Hebert, L. (1989). Control and Performance of International Joint Ventures, *Journal of International Business Studies*, 19 (2), 235-254.
- Geringer, J. M. & Hebert, L. (1991). Measuring Performance of International Joint Ventures, *Journal of International Business Studies*, 2<sup>nd</sup> quarter, 249-264.
- Glaister, K. W. (1995). Dimensions of Control in UK International Joint Ventures, *British Journal of Management*, 6, 77-96.
- Groot, T & Merchant, K. A. (2000). Control of International Joint Ventures, *Accounting, Organizations and Society*, 25, 579–607.
- Guidice, R. M. (2001). *Managing joint ventures: The impact of experience, strategic interdependence and control on performance*, Ph D dissertation, Washington State University, Washington.
- Gulati, R., Khanna, T., & Nohria (1994). Unilateral commitments and the importance of process in alliances, *Sloan Management Review*, 35, 61-69.

- Gulati, R. & Singh, H. (1998). The architecture of cooperation: Managing coordination costs and appropriation concern in strategic alliance. *Administrative Science Quarterly*, 43, 781-814.
- Hanvanich, S., Richards, M., Miller, S. R. & Cavusgil, S. T. (2005). Technology and the effects of cultural differences and task relatedness: A study of shareholder value creation in domestic and international joint ventures, *International Business Review*, 14 (4), 394-414.
- Harrison, G. L., McKinnon, J.L., Panchapakesan, S., & Leung, M. (1994). The influence of culture on organizational design and planning control in Australia and the United States compared with Singapore and Hong Kong, *Journal of International Financial Management and Accounting*, 5 (3), 242-261.
- Hennart, J.-F., Kim, D.-J. & Zeng, M. (1998). Is cross culture conflict driving international joint venture instability? A comparative study of Japanese-Japanese and Japanese-American IJVs in the United States, *Strategic Management Journal* 20 (1), 15-29.
- Hennart, J.-F. & Larimo, J. (1998). The impact of culture on the strategy of multinational enterprises: Does national origin affect ownership decisions? *Journal of International Business Studies* 29 (3), 515-538.
- Inkpen, C. A. & Beamish, P. W. (1997). Knowledge, bargaining power, and the instability of international joint ventures, *Academy of Management Review* 22 (1), 177-202.
- Johnson J L, Cullen J B, & Bronson J W (2002) Drivers and outcomes of parent company intervention in IJV management: a cross-culture comparison. *Journal of Business Research* 52, 35-49

- Killing J. P. (1983). *Strategies for joint ventures success*. Praeger Publishers, New York.
- Kumar S, & Seth A (1998) The design of coordination and control mechanisms for managing joint venture parent relationships. *Strategic Management Journal*, 19, 579-599
- Li, X. (2003). Control in Japanese-Chinese Joint Ventures: Antecedent factors and effect on performance from Japanese viewpoint, *Asian Business & Management*, 2(3), 371-395.
- Lorange, P., Morton, S. M. F. & Ghoshal, S. (1986). *Strategic Control*. St. Paul: West.
- Lu, W. J. & Hebert, L. (2005). Equity control and the survival of international joint venture: A contingency approach. *Journal of Business Research*, 58 (6): 736-754.
- Luo, Y. & Park S. H. (2004). Multiparty Cooperation and Performance in International Equity Joint Ventures. *Journal of International Business Studies* 35, 334-335.
- Luo, Y., Shenkar, O. & Nyaw, M.K-. (2001). A dual parent perspective on control and performance in international joint ventures: lessons from a developing economy, *Journal of International Business Studies* 32 (1), 41-58.
- Lyles, M. A. (1988). Learning among joint venture sophisticated firms, *Management International Review*, 28, 85-98.
- Lyles, M. A., Doanh, L. D., & Barden, J. Q. (2000). Trust, Organizational Controls, Knowledge Acquisition from the Foreign Parents, and Performance in Vietnamese International Joint Venture, *Working Paper Number 329*.
- Makino, S. (1995). *Joint Venture Ownership Structure and Performance: Japanese Joint Ventures in Asia*, Unpublished Ph D dissertation, The University of Western Ontario, Ontario, Canada.

- Makino, S. & Delios A. (1996). Local Knowledge Transfer and Performance: Implications for Alliance Formation in Asia, *Journal of International Business Studies*, 27 (5), 905-927.
- Merchant, K. A., Chow, C. W., and Wu, A., (1995). Measurement, evaluation and reward of profit center managers: A cross cultural field study, *Accounting, Organizations, and Society*, 20 (7-8), 619-638.
- Meschi, P. & Riccio E. L. (2008). Country risk, national cultural differences between partners and survival of international joint ventures in Brazil. *International Business Review* 17 (3), 250-266.
- Mjoen, H. (1993). *Core competencies, equity, control, and performance: An integrated approach*. Unpublished Ph D dissertation, David Eccles School of Business, the University of Utah, Salt Lake City.
- Mjoen, H., & Tallman, S. (1997). Control and performance in international joint ventures, *Organization Science* 8 (3), 257-274.
- O'Connor, N. G. (1995). The influence of organizational culture on the usefulness of budget participation by Singaporean-Chinese managers, *Accounting, Organizations and Society*, 20 (5), 383-403.
- Nonaka, I. & Takeuchi, H., (1995). *The knowledge creating company*. Oxford University Press, New York.
- Pangarkar, N. & Klein, S. (2004). The impact of control on international joint venture performance: A contingency approach, *Journal of International Marketing* 12 (3), 86-107.
- Parkhe, A. (1996). International joint ventures, in Punnett, B.J. and Shenkar, O. (eds), *Handbook of International Management Research*. Cambridge, MA: Blackwell Business.

- Peng, M. & Luo, Y. (2000). Learning to compete in a transition economy: experience, environment and performance, *Journal of International Business Studies* 30, 269-296.
- Pothukuchi, V. K., Damanpour, F., Choi, J. Chen, J. & Park, S. H. (2002). National and Organizational Culture Differences and International Joint Venture Performance, *Journal of International Business Studies*, 33 (2), 243-265.
- Ramaswamy, K. Gomes, L. & Veliyath, R. (1998). The performance correlates of ownership control: a study of U.S. and European MNE joint ventures in India, *International Business Review* 7, 423-441.
- Saxton, T. (1997). The effects of partner and relationship characteristics on alliance outcomes. *Academy of Management Journal* 40 (2), 443-461.
- Schaan, J. L. (1983). *Parent ownership and joint venture success: The case of Mexico*. Unpublished doctoral dissertation, University of Western Ontario.
- Wang, P., Wee, C. H. & Koh, P. H. (1998). Control mechanisms, key personnel appointment, control and performance of Sino-Singaporean joint ventures, *International Business Review* 7, 351-375.
- Whitelock J. & Yang H (2007) Moderating effects of parent control on international joint venture's strategic objectives and performance, *Asia Pacific Journal of Marketing and Logistics* 19 (3), 286-306
- Werner, S. (2002). Recent Developments in International Management Research: A review of 20 top management journals, *Journal of Management*, 28 (2): 277-305
- Williamson, O. E. (1997). *The mechanisms of governance*. New York: Oxford University Press.
- Yan, A. & Gray, B. (2001). Antecedents and Effects of Parent Control in International Joint Ventures, *Journal of Management Studies* 38 (3), 393-420.

Yeheskel, O., Newburry, W. & Zeira Y. (2004). Significant differences in the pre- and post- incorporation stages of equity international joint ventures and international acquisitions and their impacts on effectiveness, *International Business Review* 13, 613-636.

## 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 with 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 in conflicts between partners

Measured on 5 point-scale with 1=strong disagree to 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= exactly the same and 5= completely differences.

### 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*

#### 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 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 from three or more 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 one to two 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"

---