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**FACTORS AFFECTING
JOINT VENTURE PERFORMANCE
IN CHINA**

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ABSTRACT

The study of joint venture performance in China is important due to the increasing number of establishments and value of foreign investment. However, prior studies have mainly focused their analysis on the joint ventures in developed countries, and their findings cannot be generalized directly to the Chinese setting. This article fills the gap by reviewing the recent studies of the factors affecting joint venture performance in PRC. Basing on the studies of joint venture performance in China, it can be seen that Chinese and U.S. managers prefer to use different criteria to evaluate the performance of IJV. For instance, due to the state objective and socialist ideology, Chinese side mainly evaluate the performance of IJVs on the basis of economic development dimensions, while U.S. managers prefer to use enterprise output measures to evaluate IJV performance. In addition, most recent studies of factors affecting joint venture performance in China emphasize on partner-related factors and joint venture-related factors, instead of the environmental factors of joint venture. Basing on the analysis of the recent studies, some implications for future study of factors affecting joint venture performance in PRC are derived.

INTRODUCTION

China began to bring in private investment from foreign countries in 1979 when the country started to pursue the policy of opening up to the outside world. The economic reforms in China have stimulated the increasing establishment of joint ventures. More than 20,000 international partnerships with a total investment of more than \$26 billion were signed in the 1980s (U.S. - China Business Council, 1990). By the end of 1993, the number of Chinese-foreign equity joint ventures and Chinese-foreign contractual joint ventures registered in PRC were 107,820, and 25,500 respectively (Ming Pao Daily News, 1994). This rapid growth of foreign-Chinese joint ventures presents a challenging opportunity for studying joint venture performance in LDCs.

Statistics showed that more international joint ventures were formed in China than in any other nation in the decade of the '80s (Beamish 1993), and the contracted foreign investment in China in 1992 exceeded US \$40 billion (Economist Intelligence Unit 1993). Not only large multinational manufacturing firms have developed joint ventures in China, IJVs with small foreign firms are even more numerous (U.S. - China Business Council, 1990).

Joint ventures are of considerable importance in terms of the number of establishments and value of foreign investment (Henley and Nyaw 1990). There are two types of joint ventures in China: equity joint ventures (also called joint ventures) and contractual joint ventures (also called cooperative enterprises). The Chinese-foreign equity joint venture is an investment jointly run by the participants who share both the risks and profits, and established under PRC Law on Joint Ventures Using Chinese and Foreign Investment. In contrast, a contractual joint venture is a form of international economic cooperation derived from a flexible application of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment (Chu, 1986). For instance, the forms and amount of investment, the rights and obligations of the participants concerned in a contractual joint venture are all specified in the contract.

Previous research on joint ventures in China has centered on formation issues from the perspective of Western managers at the IJV operating level (Abdallah 1992; Davidson 1987; Eiteman 1990; Shenkar 1990). Despite the strategic importance of international joint ventures, studies of IJV performance is little (Anderson 1990; Geringer and Hebert 1991), and the factors predictive of successful venture performance remain unclear (Geringer and Hebert, 1991; Parkhe, 1993). In addition, prior studies have focused their analysis on the joint ventures in developed countries, the studies of IJV performance in developing countries has received little attention. However, joint ventures in PRC have their own characteristics, such as joint ventures creation is mainly due to government pressures and with government partners, and often formed with partners from ethnically related countries (Beamish, 1993). This article fills the gap by reviewing the recent studies of the factors affecting joint venture performance in PRC. Basing on the analysis, implications for future study of joint venture performance in PRC are also derived.

JOINT VENTURE PERFORMANCE

“Organizational performance” is a controversial term (Anderson, 1990), because there is a lack of clarity about what an indicator of performance (i.e. “output” of an organization’s function) and what a determinant of performance is (i.e. “input”). For instance, employee satisfaction is often used as an indicator of a high performing organization, while others may classify it as a cause of performance. However, some people may view it as neither indicator nor determinant of performance. Due to their own interests and work, researchers and managers may have different performance indicators and determinants.

Due to the dynamic changes in China’s political and economic conditions, such as the economic reform implemented in 1978, the retrenchment initiated in 1988 after the economy overheated and the tightening of political control over enterprise management following the June 1989 Tiananmen Square Incident, studies on IJV’s in China have produced mixed findings on performance outcomes (Osland and Cavusgil, 1996). Performance outcomes in IJVs have been generally studied in terms of managerial satisfaction, financial results, instability of joint ventures and technology transfer.

For studies using satisfaction as a measure of performance, most of them are basing on foreign managers' perceptions and mixed results are obtained. For instance, Campbell (1987) reports mild dissatisfaction, while Davidson (1987) finds that managers were satisfied with the performance of IJVs in China. In contrast, Beamish (1993), who researched IJVs shortly after the Tiananmen Incident, reports that over half of the Chinese and foreign managers in his interviews expressed dissatisfaction with their IJV performance. It implies that using satisfaction as a measure of performance involves the subjective judgement of managers, and the inconsistent perceptions of managers are easily affected by the political and economic conditions in China.

ROI is also commonly used to evaluate the financial results of IJVs in China. Campbell (1989) found eleven IJVs that reported "good" ROI, and three classified their results as "poor, low, or below expectations". Stelzer et. al. (1992) in their study find that 60 percent of the U.S. parent companies reported a five-year average ROI of 10% or higher. But it should be noted that the majority of the companies that responded to these two surveys appear to be profitable to their U.S. parents.

According to Killing (1983), instability of IJVs refers to major changes in ownership shares of a joint venture including foreign ownership crossing the 50 percent line, a partner selling out and liquidation of the venture. Both the National Council on U.S. - China Trade (1987) and Beamish (1993) observed relatively stable IJVs in China. Beamish (1993) had accounted for the stability of IJVs in China owing to the short duration of the IJVs implemented in PRC and the bureaucratic difficulties in adjusting ownership levels.

Equity joint ventures offer China a way to help develop its economy through the transfer of technology and acquisition of managerial skills. Hence, technology has two levels in PRC IJVs: hardware and management skill (Shapiro et al., 1991). Pearson (1991) found that Chinese government officials were not satisfied with the level and amount of hardware flowing into China. Such dissatisfaction was also found in two IJV case studies (Hendryx, 1986; Mann, 1989). In addition, Pearson (1991) also uncovered little evidence that Chinese managers were acquiring management skills from their foreign partners.

Basing on prior researches, Geringer (1991) had discussed several aspects relating to the measurement of IJV performance, including objective versus subjective performance measures, use of single versus multiple respondents, and influence of national culture on performance evaluation.

Objective versus Subjective Performance Measures

Most of the early studies used a variety of financial indicators typically employed in business research, such as profitability, growth and cost position (Tomlinson 1970, Dang 1977; Lecraw 1983). However, there are potential limitations in using the financial and objectives measures especially when these data are unavailable or are not reported. Besides, IJVs may be formed for pursuing a variety of objectives, such as technology transfer, new markets or scale economies (Porter and Fuller 1986; Contractor and Lorange 1988). In some situations, a financial or objective measure is unlikely to capture completely an IJV's relative performance versus objectives. As Anderson (1990) noted, financial measures evaluate only one dimension of performance.

On the other hand, Killing (1983), Schaan (1983) and Beamish (1984) used a single-item perceptual measure of a parent's satisfaction with IJV's performance. This type of subjective performance measures can provide information regarding the extent to which the IJV has achieved its overall objectives, but are also exposed to serious limitations and biases. Furthermore, there is the problem of consistency between subjective and objective measures of IJV performance. Geringer and Hebert (1991) found that objective measures were found to be positively correlated, but not perfectly, with parent firm's reported satisfaction with IJV performance and with perceptions of the extent to which an IJV performed relative to its initial objectives.

Use of Single versus Multiple Respondents

To overcome methodological limitations associated with subjective or objective measure of IJV performance, Schaan (1983) and Beamish (1984) proposed to collect data from each parent regarding its level of satisfaction with the IJV. The measure's reliability will

be enhanced if researchers have access to data from each parent, or even from the IJV general manager. Regarding this issue, Dess and Robinson (1984) found that multiple respondents evidenced a high degree of agreement in their assessments of their organization's performance.

In some situation, reliance on a single parent company respondent as a data source are justifiable when the respondent represented one of the key stockholders (e.g. the parent company with direct responsibility for the IJV), or when the parents were come from the same or similar cultures as the IJV. However, it should be noted that parent firms may have both convergent and divergent interests in an IJV. For instance, both U.S. and Chinese parent firms employ profit as the primary performance criterion, but the Chinese side put more emphasis on the basis of economic development dimensions, such as technology transfer and manager skills transfer. Hence, differences in partners' evaluations were evident for more specific and detailed aspects of the IJVs.

Influence of National Culture on Performance Evaluations

It is anticipated that agreement on IJV performance among the venture's participants may be influenced by their cultural similarity. Studies showed that presence of dissimilarities between parent firms' national cultures may lead to differences in parent firms' objectives for an IJV, approaches to coordination, operating methods and strategy implementation (Root, 1982, Geringer, 1988; Brown, Rugman and Verbeke, 1989). On the contrary, IJVs with parents coming from the same national culture, it is more likely to have greater agreement among the parents and the IJVGM regarding the venture's performance. For instance, Anderson and Weitz (1989) found that cultural similarity promotes communication between partners. It may result in greater correlation between their respective assessments of an IJV's performance.

DETERMINANTS OF PERFORMANCE

Many variables have been suggested in prior literature as potentially important to IJV success in China. These include partner-related factors, joint venture-related factors and environmental factors of joint venture.

First, partner - related factors, such as commitment brought to the venture by the partners, level of control exercised by the partners, sociocultural distance among partners, partner with government or private sectors. For instance, Killing (1983) suggests the level of partner commitment as one of the key determinants of joint venture performance. An organization will suffer if it lacks of commitment and overall direction for development. He also provided empirical evidence in support of the proposition using a sample of IJV in developed countries. Cavusgil and Zou (1994) gathered information on export ventures from 79 firms in United States, and also found that managerial commitment was a key determinant of export performance. The research on control-performance relationship has produced conflicting results due to the lack of consensus on the measure of joint venture performance. Beamish (1984) found that among 12 international joint ventures formed in less developed countries, performance was negatively related with the level of control from foreign partner. However, Kogut (1988) found no relationship between control and performance in his study on joint ventures in developed countries. In addition, Killing (1983) also found that the socioculture distance among partners would affect the cohesiveness of the joint management team and thus joint venture performance. Generally speaking, the smaller the cultural gap among the partners, cohesion will be easier to be created in the joint venture. This is because similar values, knowledge and customs may reduce misunderstanding and conflicts in management, thus leading to better performance.

Second, joint venture-related factors, such as characteristics of products and services, R&D intensity (Kogut, 1989; Nakamura, 1991), advertising intensity (Lecraw, 1983), the amount of ties (Kogut, 1989) and import penetration (Lecrew, 1983; Nakamura, 1991) were found to have significant impacts on joint venture performance. For instance, Kogut (1989) studied the stability of 92 U.S. - foreign joint ventures in the United States, and found that the

amount of ties (i.e. whether the joint venture partner have other licensing agreement), R &D, and scale intensity contribute positively to the stability of joint venture.

Third, the environmental factors of joint venture, such as host country's political system, economic development, legal system, government policy on foreign investment and tax codes, are anticipated to exert influence on joint venture performance (Hu and Chen, 1996; Osland and Cavusgil, 1996). However, this group of factors tends to be more country specific, and the study of the influence of environmental factors to the IJV performance in China is not yet explored.

DISCUSSION

Basing on the recent studies of joint venture performance in China, the performance criteria for measuring IJV and the factors affecting IJV performance in China are discussed as follows. First, performance criteria for measuring or assessing IJV in PRC is a controversial and complex issue. Overall speaking, profitability is classified as an "objective performance measure", and satisfaction is a "subjective performance measure" (Geringer and Hebert 1991). For instance, Osland (1994) had conducted studies to uncover performance criteria used by various groups of managers, and found that the performance criteria used by joint venture participants in China appear to be converging, with profitability emerging as the dominant element (See Table 1). Past researches also suggested that Chinese and U.S. managers use different criteria to evaluate the performance of IJVs. For instance, Chinese side primarily evaluate the performance of IJVs on the basis of economic development dimensions, including technology transfer, management skills transfer, foreign exchange, and job creation (Baird et al. 1990; Campbell, 1989; Pearson, 1991; US-China Business Council, 1990). U.S. managers are thought to use enterprise output measures to evaluate IJV performance, including profitability, sales revenue and growth, market share, productivity, and costs (Campbell 1987, 1989; Daniels et al. 1985; Davidson, 1987, Shenker, 1990). It is because the joint ventures in PRC are frequently formed due to government pressure and with government partners instead of private partners (Beamish, 1993).

Second, there is a similar pattern of satisfaction and dissatisfaction with performance of Sino-foreign joint ventures. Most studies where the data collected prior to 1989 tended to view performance as satisfactory/acceptable. Since then however, the recent samples (Teagarden and Ven Glinow, 1990; Shenkar, 1990) have found that performance problems have accelerated. Most MNE partners have shown dissatisfaction with IJV performance in China due to losing patience with the PRC.

Third, the early studies of performance IJV in PRC are some preliminary assessment of the success and failure of joint ventures mainly from the point of view of local Chinese managers (Henley and Nyaw, 1990). Recent studies tend to study the variety of factors affecting joint performance in China (Beamish, 1993; Osland, 1994; Yan and Gray, 1994; Luo, 1995; Hu and Chen 1996).

Fourth, most recent studies of factors affecting joint venture performance in China emphasize on partner-related factors, especially level of control exercised by the partners (Beamish, 1993; Osland, 1994; Yan and Gray, 1994) and relationship between partners (Yan and Gray, 1994; Hu and Chen, 1996). The joint venture-related factors, such as business strategy variables and market structure variables (Luo, 1995) are also studied. However, it may be due to the lack of data availability, the influence of environment of a joint venture to the IJV performance is not explored.

Finally, most of the previously used methods of IJV performance measurement are single-aggregated measure, such as profitability, satisfaction, etc. Since IJVs have multiple objectives, a single-aggregated measure has been criticized for not providing a direct measure for each individual objective. For instance, profitability can provide a short-term direct measure of IJV, but it ignores the IJV's other long-term objectives. So, Tang (1988) suggested to include six areas for measuring the overall performance of an IJV. These include: financial aspects, resource (input) utilization, investment, physical plant and equipment, managerial factors and strategy. Tang, Rice and Liang (1992) further proposed a multi-factor performance measurement model for measuring the IJV performance in China, and found that the model has the ability to diagnose problems facing the IJVs. Hence, in addition to studying the individual factors affecting joint venture performance, it is suggested

to put more efforts in developing a new multi-factor indices approach with a Chinese perspective for measuring the IJV performance in China in the future.

CONCLUSIONS AND IMPLICATIONS

The study of joint venture performance in China is important due to the increasing number of establishments and value of foreign investment. However, prior studies have mainly focused their analysis on the joint ventures in developed countries, and their findings cannot be generalized directly to the Chinese setting. This article fills the gap by reviewing the recent studies of the factors affecting joint venture performance in PRC.

Basing on the studies of joint venture performance in China, it can be seen that Chinese and U.S. managers prefer to use different criteria to evaluate the performance of IJV. For instance, due to the state objective and socialist ideology, Chinese side mainly evaluate the performance of IJVs on the basis of economic development dimensions, while U.S. managers prefer to use enterprise output measures to evaluate IJV performance. In addition, most recent studies of factors affecting joint venture performance in China emphasize on partner-related factors and joint venture-related factors, instead of the environmental at factors of joint venture.

Basing on the analysis of the recent studies, some implications for future study of factors affecting joint venture performance in PRC are derived. Firstly, both the objective performance measure and subjective performance measure should be used in assessing IJV performance in PRC. The performance criteria of both Chinese side and foreign side of the joint venture should also be considered. This can be examined by using the stakeholder approach (Freeman, 1984). Stakeholder analysts argued that all persons or groups with legitimate interests participating in an enterprise do so to obtain benefits and that there is no prima facie priority of one set of interests and benefits over another (Donaldson and Preston, 1995). It is believed to be quite useful by using stakeholder approach in studying the different interests and performance criteria of Chinese government partner and foreign private partner of IJV in China. Secondly, due to the increasing impacts of business environment on

joint venture performance, future research direction concerning the factors affecting IJV performance in China should be devoted more in the environmental factors of a joint venture, in addition to the partner-related factors and joint venture-related factors. Thirdly, the study of Yan and Gray (1994) suggests that formal and informal control mechanisms interact and jointly affect joint ventures performance. It implies that future research should pay more attention to the informal aspects of control, such as interpartner trust relationship and partners' commitment. Finally, it is suggested to further develop a multi-factor performance measurement model with a Chinese perspective for measuring the IJV performance in China in the future.

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Table 1

Summary of Performance
Criteria

JV OUTPUT	# of Mentions as a "Top Two" Criterion*
<u>Financial</u>	
Profit (ROI, dividends, dividends plus taxes, ROS, IRR)	17
Sales Revenue	5
Sales Growth	2
<u>Market</u>	
Market Share	4
<u>Efficiency</u>	
Productivity	3
Total Delivered Cost	1
<u>Production</u>	
Production Volume	1
<u>Product</u>	
Product Quality	5
Product Scope	1
<u>ADAPTATION</u>	
Customer Satisfaction	-
Customer Trust	-
Parent Company Satisfaction	-
Government Satisfaction	-
Survival	-
<u>INTERNAL PROCESS</u>	
<u>Interpartner</u>	
Cooperation	2
Trust	-
Harmony	-
Cultural Exchange	-
<u>Inputs/Processes</u>	
Working Capital	-
Management Quality	-
Control of Salespeople	-
Stability	-
<u>ECONOMIC DEVELOPMENT</u>	
Technology Transfer (hardware)	3
Management Skills Transfer	4
Manufacturing Capability	-
Foreign Exchange	1
Capital	-
Competition in China	1
Localization of Parts	-

* Criteria with numbers are compiled from 25 managers' lists of their two most important performance criteria. The other performance criteria in the Appendix were mentioned by these and other managers as additional criteria that they use in evaluating the performance of the joint venture.

Source: Osland, 1994

Table 2 Major Studies of Factors Affecting Joint Venture Performance in China

Author(s)	Studies	Factors Affecting Joint Venture Performance in China	Performance Criteria
Henley and Nyaw (1990)	- A preliminary assessment of the successes and failures of 34 joint ventures from the point of view of local Chinese managers located in Shenzhen SEZ.	Point of view of local Chinese managers in Shenzhen.	Organizational efficiency, functioning of marketing channels, profitability, foreign exchange earnings performance, overall performance.
Beamish (1993)	- 12 joint venture characteristics of joint-ventures in PRC are reviewed along dimensions of design, management and performance.	Control-performance relationship in successful JVs.	MNE partners indicated a dissatisfaction with performance.
Osland (1994)	- This study sought to uncover performance criteria used by various groups of managers and to identify 4 critical factors in IJV performance in China.	Controlling decision making, establishing a sales network, retaining interpartner learning, influencing government officials.	Refer Table 1 - Summary of Performance Criteria.
Yan and Gray (1994)	- The study reports a comparative study of 4 joint ventures between partners from the United States and the PRC. The bargaining power of potential partners affects the structures of management control in a joint venture, which affects venture performance.	Bargaining power of potential partners, structure of management control in joint venture.	The performance measure is the extent to which a venture's partners had achieved their strategic objectives in initiating the joint venture
Luo (1995)	- This paper examines the influence of business strategy and market structure variables on the performance of IJV operating in PRC.	Business strategy variables, market structure variables.	Accounting return 1. Return on investment. 2. Return on asset. Market Measure 1. Domestic sales growth rate. 2. Export growth rate.
Hu and Chen (1996)	- Studying factors underlying the performance of foreign joint ventures in China.	Level of partner commitment, number of joint venture partners, sociocultural distance among partners.	Successful joint venture (i.e. commended on the honor roll as successful joint ventures). Joint ventures not successful.