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**Evolving Joint Ventures:  
A Study of Dalian-Based Joint Ventures in the  
Transitional Chinese Economy**

**Zhengming Yang**

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Thesis Submitted in Fulfilment of the Degree of Doctor of Philosophy  
University of Durham, East Asian Studies

March 2003



19 JAN 2004

# **Evolving Joint Ventures: A Study of Dalian-Based Joint Ventures in the Transitional Chinese Economy**

## **Abstract**

This thesis attempts to explain the evolution and survival of joint ventures in the transitional Chinese economy. Since China 'opened its doors' to foreign direct investment in 1979, the inflows of capital, technology, and management skills via joint ventures have contributed significantly to its economic development. Joint ventures were unquestionably regarded as the most feasible and also the only possible strategy for legitimate foreign direct investment. However, evidence is presented showing that in the 1990s, in line with China's ongoing economic reform, significant changes took place in the country's institutional and economic environment. Hence, the changes in its business environment had a strong impact on China's foreign direct investment.

The findings of this study show that China's transitional economy has had a significant impact on the relaxation of state control over foreign direct investment and has seriously affected joint venture partners' initial power relationships and interdependency. The new power relationships between venture partners have driven dramatic changes in joint venture partners' strategies, ownership structure, and operational management. As a result, this study further indicates that the changes in China's business environment, although not the only dominant factor, have exacerbated joint ventures' internal difficulties and further affected joint venture partners' strategic choices, which in turn has led to a rapid evolution of China-based joint ventures.

This study contributes to both the theoretical and practical understanding of the evolution of China-based joint ventures as they have adapted under China's economic transition and indicates an additional exit way out to a joint venture's eventual destination, rather than termination or dissolution. This study also offers areas for future research.

## **Acknowledgements**

Several people, both in the UK and in China, have been involved in the gradual development of this study during the course of my research over the last five years into “Evolving Joint Ventures: A Study of Dalian-Based Joint Ventures in the Transitional Chinese Economy”.

First of all, I feel extremely grateful to Professor Keith Pratt, former Director of the Department of East Asian Studies, and Professor Tony Cockerill, Director of the Business School, University of Durham, for their trust and kindness in offering me this doctoral research place. I owe a special gratitude to Professor Pratt for his efforts in helping my family to join me in Durham.

My sincere thanks to Dr Mike Dillon, my supervisor, from whom I had extraordinary support, guidance, and continuous encouragement from the beginning to the end of this study, especially when I was very dispirited. I shall never forget the financial assistance he helped to arrange for my fieldwork in China when I was in great financial difficulties.

My sincere thanks to my co-supervisor – my former MBA tutor, John Ritchie, who has continuously provided literature, advice, guidance, suggestions, and insights, which helped formulate the original concept. He was never short of critical words when reading my work, but always enlightened me and encouraged me to study further for this thesis.

I would also like to thank all the Dalian Municipal Government officials involved in this research project for being so helpful and openly sharing their experience, ideas, and insights with regard to Dalian-based joint venture activities; without governmental assistance and support from these people, it would have been impossible to carry out this research on China-based joint ventures in Dalian. In particular, I must thank Jin Richan, deputy director of the Dalian Municipal Commission of Foreign Trade and Economic Cooperation, Wen Yongran, divisional director of the Dalian Municipal Foreign Affairs Office, Sun Kaicheng, deputy divisional director of the Dalian Economic and Technology Development Zone, Cheng Shaofang, secretary-general of the Dalian Association for

Foreign-Funded Enterprises and Dong Yancheng, deputy secretary-general of the Zhongshan District Branch of Dalian Council for Promotion of International Trade for their support, assistance and collaboration in the fieldwork of this study. My thanks also go to all the Chinese and overseas managers from Dalian-based joint ventures for their participation in this research project and the contribution of their expert opinions to the composition of this thesis.

My sincere thanks also go to my friend David Gibson. With his help and assistance I was able to secure a MBA place at the Business School, University of Durham in 1995, and also with his advice and encouragement, I was able to make the decision to conduct this PhD research. In the past six years, he was always with me whenever I was having difficulties. He not only offered me free accommodation in his house, both in the early stages of my MBA course and during this PhD research, but also extended his friendship to me and my family.

I would like to extend my heartfelt gratitude to my respected friend Caroline Mason, for patiently reading the first and final drafts of this thesis, chapter by chapter, for excluding the least relevant words and paragraphs and correcting grammar mistakes. Her help has made this piece of research work more readable.

Finally, my thanks go to my dear wife, Dr Aiping Zhang, for her patience and continuous belief in me. Her dedication in working six days a week at her traditional Chinese medicine clinic in the last five years, in order to support the family was crucial to the completion of this study.

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## **Chapter One                      Introduction**

### **1.0      Introduction**

Foreign direct investment is considered vital to China's transitional economy. Nevertheless, the research on the recent development and continuing evolvement of China-based joint venture has yet to emerge. In this light, this thesis studies Dalian-based joint ventures in China's transitional economy, with a view to enriching the existing literature of joint venture evolution by identifying the evolving patterns and processes of these joint ventures.

### **1.1      Motivations of the Study**

Arguably, China is the most unusual of the transitional economies. It is the largest, the fastest growing, and the most heavily engaged in international business and investment. On the other hand, China is also unusual because its transition continues to be planned by the state and is subject to the active involvement of governmental institutions in business activities (Child and Tse 2001). China's distinctiveness and its relevance to the study of international joint ventures are fundamental for two main reasons. Firstly, the characteristics of China's business system generate uncertainties for the international joint ventures and these aspects are significant because of its size and its growing engagement with the international economy (Luo 2000). Secondly, the nature of China's economic transition arguably challenges the principle of present international joint venture theory (Peng 2000).

According to the official statistics from China's Ministry of Foreign Trade and Economic Cooperation,<sup>1</sup> between 1979 and 2002, all levels of Chinese government approved a total of 424,196 projects of foreign direct investment, with the creation of about 25 million jobs. The growth of foreign direct investment becomes increasingly crucial for China's transitional economy. As reforms continue, state priorities and policies towards foreign direct investment have been changing over time.

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<sup>1</sup> Website of Ministry of Commerce of the People's Republic of China – [www.mofcom.gov.cn](http://www.mofcom.gov.cn) (2002)



Many researchers (Daniels 1985; Campbell 1986; Kogut 1988; Campbell 1988; Kogut 1989; Parke 1993; Ring and Van de Ven 1994; Gulati 1995; Gray and Yan 1997; Yan and Luo 2001) have examined the political, economic, social, cultural, and legal aspects of doing business in China. Others (Boisot 1990; Aiello 1991; Beamish 1993; Ding 1993; Bjorkman 1994; Child 1994; Hamilton 1997; Chen 1998; Walsh 1999; Luo 2000) have identified firm-level factors of success, such as the venture's size, equity shares, prior international business experience, operation and management. Nevertheless, to some extent, previous studies of China-based joint ventures are locked into looking at the theories and strategies for market entry and operational management, including negotiation and formation of joint ventures, joint operations and mutual adaptation between partners/government/local authorities, methods of coping with cross-cultural difficulties and, finally, the instability and termination of joint ventures, which focuses on changes in ownership structure, and reorganisation or contractual renegotiation. In short, previous studies went into great depth in identifying factors contributing to joint venture success or instability.

China's economic transition is different in many aspects from that of other developing countries. The characteristic of the transitional Chinese economy is felt to have had some impact on the evolution of China-based joint ventures. However, it is not yet clear how China-based joint ventures have evolved over time, and whether some evolutionary patterns can be established. So far no one has attempted to identify a pattern in this regard.

For more than two decades, China-based joint ventures have evolved along with their dramatic changes in China's business environment. The development of international joint ventures is a multi-faceted process and one in which joint ventures have to respond to environmental changes (Craig and Douglas 1996). This thesis therefore attempts to investigate the changes in China's business environment and their impacts on international joint ventures. It then will identify major changes in joint ventures and the process of their evolution in the transitional Chinese economy.

## **1.2 Aims of the Thesis**

Given the above considerations, this thesis aims to investigate the impact of China's economic transition on state policy towards foreign direct investment in terms of whether and to what extent joint ventures are affected by the changes in China's business environment and are evolving as a result. It also aims to make a theoretical contribution to the literature in this field by presenting a systematic account of the evolutionary pattern of China-based joint ventures with a justifiable interpretation. In particular, the questions to be addressed include:

1. To what extent has China changed state controls over foreign direct investment, especially for joint ventures?
2. Are there now significant changes in partners' strategies, ownership structure, and operational management in China-based joint ventures?
3. To what extent are these ventures evolving as a result?
4. What best characterises the resulting patterns of evolution of these joint ventures?

This thesis will not focus on whether or to what extent, China has benefited economically from China-based joint ventures. Rather, it seeks to examine why and how China-based joint ventures have evolved over time and the implications of this evolution for the future development of international businesses in China.

## **1.3 Organisation of the Thesis**

This thesis consists of eight chapters. After this introduction, Chapter Two reviews the literature on international joint ventures and establishes a theoretical platform for understanding the evolution of international joint ventures. Chapter Three presents an overview of the development of China-based joint ventures in the 1980s and the 1990s, and reflects both the official Chinese and the Western perspectives. It also reviews the literature on recent changes in China's business environment and their impact on international joint ventures. It then develops a framework for analysing the findings of

this research. Chapter Four introduces the main research theme and the methodology employed for gathering essential data and discusses the problems encountered in the course of this study. Chapter Five and Chapter Six present the research findings from the questionnaire survey and in-depth personal interviews that were carried out in China. In Chapter Seven, the quantitative and qualitative findings are discussed using the research framework established in Chapter Four. Chapter Eight concludes the thesis and suggests areas for future research.



## **Chapter 2**    **International Joint Ventures**

### **2.0 Introduction**

This chapter defines international joint ventures and explains why managing such ventures can be particularly challenging compared with managing domestic enterprises. Secondly, it attempts to develop a framework that allows the investigation into the development process of international joint ventures – motives for joint venture formation, joint venture ownerships, joint venture partners, joint venture operation, and finally, the evolution of international joint ventures.

### **2.1 International Joint Ventures – The Model Framework**

#### **2.1.1 International Joint Ventures Defined**

International joint ventures are broadly defined as companies that involve firms from different countries cooperating across national and cultural boundaries (Killing 1982; Cundiff 1984; Beamish 1985; Campbell 1988; Harrigan 1988; Kotler 1991; Yan and Luo 2001). Pfeffer and Nowak (1976) and Anderson (1990) note that equity joint ventures are legally and economically separate organisational entities created by two or more parent organisations that collectively invest financial as well as other resources in order to pursue certain objectives. Beamish (1988) defines international joint ventures as shared-equity undertakings between two or more parties, each of which holds at least five per cent of the equity.

In their pioneering study on joint ventures, Friedman and Kalmanoff (1961) adopted a very broad definition of a joint venture as “any type of association which implies collaboration for more than a transitory period”. Tomlinson (1970) added that the partners collaborating in that association are legally separate and collaborate for their mutual benefit. He also stressed that the establishment of a new entity was involved, as distinct from Friedman and Kalmanoff’s (1961) earlier definition. Harrigan (1984, 1985) considered that a joint venture is a ‘partnership in which two or more firms create an

entity to carry out a productive economic activity and take an active role in decision-making, if not also in operations.' Harrigan (1984, 1985), Kogut (1988) and Hennart (1988) highlighted the importance of management participation. Various authors (Killing 1983; Harrigan 1984; Oman 1984; Beamish and Banks 1987; Contractor and Lorange 1988; Kogut 1988; Hennart 1988; Gomes-Casseres 1989; Young et al. 1989; Lichtenberger and Naulleau 1993; and Laughton 1995) considered the creation of a separate legal entity as essential for the definitional existence of a joint venture, though this is not essential for the existence of a joint venture.

Kogut (1988) stated that international joint venture is a means to resolve competitive conflicts inherent in economic relations or to achieve the competitive positioning of firms relative to rivals, including buyers and suppliers. However, joint ventures perform another role in addition to resolving or affecting competitive factors, namely, as vehicles by which knowledge is transferred and by which firms learn from each other (Kogut 1988).

Yan and Luo (2001) further emphasised that although an overwhelming majority of international joint ventures involved only two parent firms, one from a foreign country and the other from the local country, some ventures may consist of multiple participants, with more complex national or cultural backgrounds. For example, Thermo King Dalian Transport Refrigeration Ltd. is a joint venture formed between Thermo King Transport Refrigeration Ltd. (USA), Dalian Refrigeration Works, Shenzhen Telex Group Co. Ltd. and Santoso Holdings (Hong Kong) Company.

Previous studies (Harrigan 1984; 1985; Kogut 1988; Hennart 1988) indicated that joint ventures are the most active and popular form of international economic co-operation in the modern world. In the international business field it is clear that joint venture is a most flexible tool, which can turn an impossible project into a possible one. But others (Davidson 1987; Beamish 1989; Boisot and Child 1990; Aiello 1991; Bjorhman and Schaap 1994; Child 1994; Hamill and Pambos 1997; Cui 1998; Selmer 1999; Wong 1999; Yan and Luo 2001) claimed that joint ventures involve the most complicated

management requirements, hence operations are also difficult, especially in the Chinese context.

#### ▪ **Complexities in International Joint Ventures**

Among the different forms of inter-organisational relations, joint ventures are unique and arguably the most complex type of arrangement, because they deal not only with multiple goals and objectives, but also mutually non-congruent or even conflicting expectations of the partners. Anderson (1990), Yan and Gray (1994) suggested that international joint ventures involve a far more complex set of organisational entities as stakeholders than independent firms do. In addition to the 'regular' constituency group such as suppliers, customers, creditors, government agencies, and employees, an international joint venture involves at least two different partners, the venture's own management and the national and local government agencies in different countries, each holding distinct stakes in and placing different demands on the partnership.

The argument is that as legally and economically independent organisations, joint ventures operate like stand-alone firms and have to engage in all the different types of 'regular' business activity and external relationships that any independent firm has to undertake. However, more complex than those independent firms, joint ventures inevitably involve multiple 'internal' inter-organisational relationships: the relationship between the partner firms, the venture management's relationship with the foreign parent and with the local parent, and the relationship between the venture's managers nominated by different partners. Each of these relationships can be difficult to manage.

Above all, international joint ventures represent inter-cultural and inter-organisational linkage between two separate parent companies that join forces with different strategic interests and objectives (Yan and Luo 2001). Joint venture parents, unlike the multiple shareholders of a public corporation, are visible and powerful, and can and will disagree on just about anything (Killing 1983).

### ▫ **Previous Research Models on International Joint Ventures**

Killing (1983) addressed the different issues that make a joint venture succeed or fail with a model that revolves around issues of control and incorporates elements such as performance, techniques of joint venture control, partner selection, staffing, reward systems, production flows and management. The limitations of his model are that it does not address the issue of diverging strategic expectations of joint venture partners, which could have a strong impact on joint operation.

Harrigan (1985) presented an early framework for joint venture research, in terms of the relationship between the partners in a joint venture, between the parents and the joint venture, and between the joint venture and its competitive environment. She allocated a variety of factors to the individual elements of her model, which determine the bargaining power of the parent firms on issues including benefits, costs, resources, alternatives, needs and barriers. Harrigan's (1985) model further suggested that a joint venture, as the bargaining agreement, covers outputs, inputs, control mechanisms and the duration or stability of the agreement. It incorporates a dynamic element, so-called change stimuli that influence the stability of the joint venture and the timing of changes. These stimuli include changes in the parents' strategic mission, in the importance of the joint venture to the parent, in parent firm bargaining power, in the sector of the industry, in the effectiveness of joint ventures as a competitive strategy, and in the joint venture's need for autonomous activities.

For application in this thesis, Harrigan's model is appropriate for several reasons. First, this model emphasises the relevance of success with regard to the joint venture and its competitive environment. Secondly, although the model does not emphasise differences of strategic expectations between joint venture partners, it does define the joint venture as crucial for the bargaining agreement or the compromise agreement, which implicates different strategies between joint venture partners. Nevertheless, the main limitation of the model is that it confines itself to competing in mature markets – the US market in her case. Its application to situations where emerging markets are being serviced has not yet been tested.

In an effort to draw together the main findings within the vast and growing literature, Parkhe (1993) identified four major areas of research on international joint ventures: the motives for joint venture formation, partner selection, governance and control, and joint venture performance and stability. He further argued that although some of these areas have received enormous research attention, others continue to be under-studied or virtually ignored. In particular, the choice of organisational structure, alliance structure design, and dynamic evolution of the cooperative relationship represent the three major areas awaiting deeper theoretical insights. Yan and Luo (2001) recently emphasised diverging strategic expectations together with cross-cultural differences, incongruent organisational strategies, structures, and operational processes between partner firms as sources of inter-partner conflict, which in turn lead to the venture's instability and affect its performance. They also argue that the dynamic evolution of international joint ventures needs in-depth study.

In this study, Killing (1983), Harrigan (1985) and Parkhe's (1993) research models are adopted and modified as a framework to guide the fieldwork for data collection: joint venture formation motives, joint venture ownership, joint venture partners, joint venture operation, and joint venture instability. Yan and Luo's (2001) model of joint venture reconfiguration is also adopted for the analysis of data collected from the marketplace in China.

### **2.1.2 Joint Venture Formation Motives**

Why do firms choose joint ventures to conduct international business? Previous studies have offered a variety of theoretical perspectives on the formation incentives of international joint ventures, ranging from economic theories to organisation theories and game theory (Harrigan 1985; Beamish 1988; Datta 1988; Kogut 1988; Shenkar 1990; Hamel 1991; Kim 1996; Yan and Luo 2001).

The following is a summary of several of the most prominent reasons for formation of international joint ventures, namely, government policy, gaining access to overseas markets, risk sharing, the tapping of outside resources, and strategic behaviours.

### ▪ **Government Policy**

Although the push for multinational firms to make direct foreign investment may come from forces associated with products and markets, many international joint ventures result from the pull by host governments. According to previous studies (Beamish 1985; Harrigan 1985; Datta 1988; Pearson 1989; Yan and Luo 2001), governments, particularly in developing countries, exert pressure on multinational companies to use the form of equity joint ventures rather than wholly owned subsidiaries. For the foreign firm, a joint venture with a local organisation, whether business or governmental, may be required in order to enter these countries. Shenkar (1990) argued that there are, in fact, various other ways of developing new markets and acquiring raw materials, rather than through the formation of joint ventures. Nevertheless, a host government's insistence can lead to the formation of joint ventures.

Beamish (1985) demonstrated that developed countries and developing countries represent different external environments, with the latter being a more complex and difficult one in which to establish and manage a joint venture. Beamish (1985) examined characteristics, including reasons for joint venture formation, autonomy, stability, performance, frequency of government partners and ownership, while placing particular emphasis on ownership and control and their relationship to performance. He discovered that joint ventures in developed countries and developing countries differ in eight characteristics. In his studies, 64 per cent of joint ventures in developed countries were created because each partner needed the other partner's skills, whilst only 38 per cent of the joint ventures in developing countries were created for this reason. Moreover, 17 per cent of the joint ventures in the developed countries sample were created as the result of host government mandate, while 57 per cent of joint ventures in developing countries were created for this reason. Many developing countries seek to maintain their national identities by protecting and controlling economic activities within their borders (Reynolds 1984).

### ▪ **Gaining Access to Overseas Markets**

Gaining access to overseas markets has been a classic reason for firms to form joint ventures. This is true for both the multinational and the local partner firm (Yan and Luo 2001). On the one hand, one advantage of a joint venture is that a foreign firm can piggyback on a local partner to gain access to the local market. On the other hand, in many cases, it is also the aim of the local partner to gain access to the international market. In his study of 52 Indian/US joint ventures, Reynolds (1984) discovered that the Indian partner hoped to export in order to generate foreign exchange for the import of equipment, whereas the US partner aimed at entering the market with a broad product line that would have competed against products already offered by the Indian partner's sister companies.

### ▪ **Risk Sharing of Market Entry**

Risk sharing is another frequently observed motive for forming international joint ventures. First, if an investment project is financially too large or too risky for single firms to handle alone, they may join forces to share the financial risk. This is the case with oil exploration and commercial aircraft manufacturing where large, risky projects call for inter-firm collaboration. Second, if the business environment in a host country is highly uncertain or unfriendly to foreign firms, a joint venture with a local firm may allow a multinational company to share political risks and to defuse xenophobic local reactions, a strategic action to amend the 'liability of foreignness' (Yan and Luo 2001). Datta (1998) also stressed that motivations for setting up international joint ventures also included the sharing of heightened economic risks in new joint ventures, satisfying nationalistic demands and reducing risks of expropriation, and maintaining good relations with host governments.

### ▪ **Tapping of Outside Resources**

Formation of international joint ventures allows a firm to tap outside resources in order to build competitive strength at significantly reduced costs – with capital investment much lower than if the firm either developed it alone or achieved it through acquisition. For example, access to a partner's technology enables a firm to enjoy the fruits of research

and development while avoiding the rapidly increasing R & D costs. According to Kaiser (1998) and Contractor and Lorange (1988), in the international joint venture context, foreign firms join forces with local partners for their knowledge of business practices, consumer behaviour, distribution networks and legislation. They join forces to generate economies of scale, exchange technology, overcome government-mandated trade or investment barriers, and to facilitate initial international expansion of inexperienced firms. The local partner is expected to bring in financial, technical and human resources that eventually reduce the foreign firm's resource commitment.

Yan and Luo (2001) argue that in addition to cost considerations, joint venturing is an effective, if not the most effective, avenue for companies in developing countries to learn about new business processes and to catch up with the substantial technological advantages possessed by their counterparts in developed economies. Harrigan (1985), Habib (1987), Bieszki and Rath (1988) also established that local partners frequently want to import sophisticated technologies and brand names, whereas host governments and foreign firms might want to establish joint ventures in order to use technologies that exploit the country's low-cost labour.

#### ▪ **Strategic Behaviour**

Kogut (1988) argued that joint ventures were formed for strategic reasons, to enhance their competitive positioning in the market. From this perspective, the ultimate objective is to maximize profits through improving the venture's competitive position rather than minimizing costs. Harrigan (1988) argued that the increasing use of joint ventures represents an exciting change in competitive behaviour that enables managers to build strengths for their firms' business units. By forming joint ventures, firms can change industry structures to the disadvantage of competitors. She further states that different industry characteristics, such as demand growth, market attractiveness, market standardisation, and uncertainty, as well as competitor traits, can affect the strategic use of joint ventures.



Raveed and Renforth's study (1983) of US joint ventures in Costa Rica cited the need to keep operational control of the joint venture as one of the most important motives for forming joint ventures, in addition to obtaining country-related knowledge, reducing the risk of expropriation, and obtaining favourable government treatment in areas of taxation, protective tariffs, foreign exchange, and input permits.

Within the strategic behaviour thesis of joint venture formation, a most recent and rapidly expanding argument is organisational learning (Yan and Luo 2001). This explanation views joint venture as a mean by which firms learn from their partners to build their own capabilities. In this view, joint venture partners are driven by the motive of acquiring knowledge, particularly tacit knowledge. Hamel (1991) in particular, argued that the sponsors of joint ventures form horizontal alliances to extract and internalise the skills and competencies of their partners, and thus either strengthen their own competitive position or erode the competitive advantage of their partners. This learning-oriented motive for forming joint ventures, however, can create significant inter-partner competition and conflict, which in turn can destabilise joint ventures. Moreover, this motive could hardly be regarded as a long-term strategy.

### **2.1.3 Joint Venture Ownership and Control**

#### **(1) Joint Venture Ownership Structure**

According to Child, Yan and Lu (1997), in formal terms, ownership is the legal possession of assets. It is normally defined in terms of three fundamental rights: to possess an asset or its financial value; to exercise influence over the use of the asset; to possess information about what is owned. Yan and Gray (1994) regard equity as the provision of a capital resource to a joint venture by its partner companies; this is usually financial, but sometimes comprises land, buildings, and plant. They distinguished the equity resources and what they categorised as 'non-capital resources' (Yan and Gray 1996). A comprehensive concept of ownership applicable to international joint ventures would incorporate equity and contractual and non-contractual inputs (Yan 1994). The distinction between the three types of resources is likely to be significant for the

understanding of joint venture control because of the different nature and scope of the power that stems from each type of resource (Yan and Gray 1996).

The ownership structure of an international joint venture is generally defined by the division of the equity investment in the joint venture among the sponsoring firms. From the perspective of each individual joint venture partner, there are three generic types of ownership structure to choose from: (1) majority ownership, (2) minority ownership, and (3) equal split of ownership (50-50 per cent in the case of two partners). Not surprisingly, each structure has its strengths as well as its own problems (Killing 1983; Lecraw 1984; Beamish 1985; Yan 1993; Yan and Gray 1994; Yan and Luo 2001).

Joint venture ownership has a strong effect on risk sharing and resource commitment of the partners, and on the vulnerability and strategic flexibility of the joint venture. The ownership structure in a particular joint venture may also have an impact on the firm's overall strategy with respect to its strategic control over joint ventures, bargaining power with local interests and joint venture operations (Yan and Luo 2001).

## **(2) Joint Venture Control**

Control is the authority over operational and strategic decision-making (Hill et al. 1990). It is the ability to influence operational systems, methods and decisions (Anderson and Gatignon 1986) and a continuing adjustment to given and changing conditions, not a one-time intervention (Miles and Snow 1984). Control plays an important role in the capacity of a firm to achieve its goals with joint operations (Davidson 1987; Geringer and Hebert 1989; Young et al. 1989). Geringer and Hebert (1989) suggest that control refers to the process by which one-entity influences, to varying degrees, the behaviour and output of another entity through the use of power, authority, and a wide range of bureaucratic, cultural, and informal mechanisms.

## **(3) Relationships between Ownership and Control**

According to the economics literature, ownership serves as a mechanism to claim 'residual rights of control' – the right to make decisions concerning an asset's use that is

not explicitly stipulated by law or contract (Milgrom and Roberts 1992). A parent firm can use ownership as a leverage to protect its firm-specific capabilities. Because these capabilities are often intangible, a crucial factor determining the returns a parent can expect is its degree of control over the venture's operation. Blodgett (1991) argued that many Western companies have corporate policies that prevent the firm from contributing proprietary resources to minority-owned joint ventures. Therefore, firms increase their ownership holdings in joint ventures in order to protect their non-equity, proprietary resources committed to the joint venture. Lecraw (1984), Anderson and Gatignon (1986), and Yan (1993) shared a similar view that the choice of a desired level of ownership reflects the interplay between the firm's desire to secure control and its attitudes towards investment risks. Although the exercise of managerial control over a joint venture can be gained also through non-equity-based mechanisms, ownership control remains the most significant determinant of management control.

Based on the results of their investigations into sixty-seven Sino-foreign joint ventures, Yan and Gray (1996) suggested two distinctions relating to international joint venture ownership and control. The first distinction is that between contractual and non-contractual ownership resourcing, and the second is that between strategic and operational control. The relationship between international joint venture ownership and control is found to be sensitive to these distinctions.

The ownership structure is expected to have a significant effect on the structure of control over the joint venture's operations. Killing (1983), Lecraw (1984), Yan and Gray (1994) differentiated ownership control and managerial control at the conceptual level. However, Yan and Luo remarked that empirically, a joint venture's ownership structure has been found to be a critical factor in the structure of managerial control exercised by the partners. For example, in Killing's (1983) study of joint ventures in developed countries, 70 per cent of the 'dominant control' ventures were majority owned by the managerially dominant partner. Using the same research framework, Beamish (1985) found that 76 per cent of the 'shared control' joint ventures were equally owned by their

parent firms. Lecraw (1984) and Yan (1993) each found a significant positive correlation between the two variables, 0.57 and 0.60, respectively.

When operating in a highly complex, dynamic environment, an international joint venture tends to be more vulnerable to environmental changes and conflict between partners. Environmental change and uncertainty become serious external threats to the structure of joint venture ownership. Nevertheless, the limitation of the existing body of literature on the ownership of international joint ventures is that although control and ownership do not necessarily have to correspond, none of previous studies argued that with the external environment changes, whether joint venture ownership structure could be quietly (unofficially) transferred between venture partners, even the transfer was restricted by host government laws and regulations.

#### **2.1.4 Joint Venture Partners**

It is widely assumed that firms establish joint ventures only when the perceived additional benefits from joint venturing outweigh expected extra costs (Beamish and Banks 1987; Geringer 1991). These additional benefits will accrue, however, only through the selection and retention of a partner that can provide the complementary skills, competencies, and capabilities that assist the local firm to accomplish its strategic objectives (Buckley and Casson 1988; Harrigan 1985; and Hamel 1991). From the complementary needs perspective, partner selection determines the right mix of strategic resources within an international joint venture (Hamel et al. 1989; Prahalad 1989; Harrigan 1985). In a dynamic market particularly, the importance of partner selection to the success of the partnership is magnified, because the right partner can spur the adaptability of the joint venture, improve the strategy-environment configuration for both the venture and the parent firms, and reduce uncertainty in the venture's operation (Teagarden and Von Glinow 1990; Zeira and Shenkar 1990).

A desirable local partner can make it possible to invest in industries that are subject to local government restrictions against foreign direct investment, and can help a multinational firm gain access to marketing and distribution channels that are available

only to local businesses. In addition, a well-connected local partner can significantly reduce local political risks and gain political advantages in the host country. For the local firm, on the other hand, selection of an appropriate foreign partner is also critical. A desirable foreign partner can bring to the joint venture advanced technologies, know-how, management expertise, and channels to the international marketplace (Geringer 1988; 1991; Hamel 1991; Yan and Luo 2001).

Previous literature (Beamish 1987; Scherer and Ross 1990; Zeira and Shenkar 1990; Parkhe 1991; 1993, Geringer 1991; Hamel 1991; Ellis and Shenkar 1996; Li and Shenkar 1996; Yan and Luo 2001) created an inter-partner fit model for international joint venture partner selection. This depends on the complementarity and congruence of the strategic, organisational, and financial traits of the partners. Strategic fit refers to the degree to which international joint venture partners are congruent to or complement one another's strategies and capabilities in the light of industry, market, products, customer, capital, or technology-related issues. Organisational fit is the match between each partner's administrative practices, control mechanisms, cultural practices, and personnel characteristics, which may directly affect the efficiency and effectiveness of the partnership. Conceptually, both strategic and organisational strengths are crucial for joint venture performance. A partner with superior strategic traits but lacking organisational strength can make the joint venture unstable, while the possession of desirable organisational attributes without corresponding strategic competence leaves the joint venture unprofitable (Parkhe 1993; Ellis and Shankar 1996; Li and Shenkar 1996). Finally, financial fit concerns the degree of match in cash-flow position and capital structure between partners. Profitability is usually one of the major operational objectives for joint venture partners. Failure to achieve it will give rise to venture instability, inter-partner conflict, and even dissolution.

However, the limitation of the inter-partner fit model was that it did not address the interrelationship between strategic, organisational, and financial fits. Secondly, the existing literature on joint venture partner selection focuses only on the mutual adaptation between joint venture partners, and neglects competition between joint venture partners.

The existing literature also fails to address the negative impact of the local joint venture partner may bring to the foreign partner once the original 'joint strategy' splits and goes in different directions. For example, a good relationship between a local partner and local government might cause even more damage to the foreign partner when things go wrong within the joint venture, as frequently happens in China-based joint ventures.

Most joint ventures are formed on the assumption that each of the partner firms will provide organisational strengths that are needed by other partners. However, false expectations about partner capabilities can cause problems within joint ventures, sometimes leading to termination. Since the partners fully expect the resources they contribute to the venture to be effective, when one or both partners' presumed competencies or strengths fail to generate the expected results, joint ventures have to confront the risk of dissolution. The wider the perceived gap between what partners pledged and what they actually deliver, the greater the difficulties for the joint venture.

### **2.1.5 Joint Venture Operation**

The success or failure of an international joint venture depends largely on the joint operation (Datta 1988; Lane and Beamish 1990). Compared with wholly foreign-owned enterprises, joint ventures are much more difficult to operate (Rugman et al. 1985), since in a joint venture more than one firm is involved in decision-making. The behavioural, cultural and administrative differences among joint venture partners make joint operation a demanding and difficult task. For example, a foreign management team might have a different attitude towards strategies, style of operation and management, workforce recruitment, business opportunities and risks than the local partner, and the corporate decision-making would then be affected (Killing 1982, 1983). Killing (1983) established that operations in dominant parent joint ventures, shared management joint ventures and independent joint ventures are all different. Schann (1988) found that, of these, the shared management joint ventures are the most difficult to manage.

### **(1) Congruence of Strategic Objectives**

Joint venture operation depends on congruence between the two sets of strategic objectives of the partners in respect to the particular joint venture. Compatible partner interests are a primary factor in joint venture's successful operation (Tomlinson and Thompson 1997; Inkpen and Currall 1998).

Congruence of joint venture partners' strategic objectives does not necessarily require commonality, however, although perfect congruence occurs when both partners share a common set of strategic objectives. However, Yan and Luo (2001) argued that a high level of congruence could also be reached when the partners' goals were different but complementary. Complementary goals occur when the foreign partner is interested in penetrating an underdeveloped country market for a specific product, while the local partner is currently importing the product but desires to manufacture it locally. Conflicts of interest and incongruent strategic objectives between joint venture partners are not uncommon, however, in which case it is difficult for the joint venture to satisfy both partners.

### **(2) Complementarity of Resources**

Resource dependence theory (Pfeffer and Salancik 1978) argues that firms cooperate to enter into joint ventures for critical resources. The interdependence between joint venture partners in terms of skills and competencies entails the notion of complementarity (Harrigan 1986). Chi (1994) stated that "complementarity exists between two sets of resources when a joint use of them can potentially yield a higher total return than the sum of returns that can be earned if each set of resources are used independently of the other". In more specific terms, Hill and Hellriegel (1994) argued that complementarity occurs "only when the partners bring distinctive competencies that are different and non-overlapping," thereby stressing the 'non-redundant' nature of partner resources.

For achieving their strategic goals, each joint venture partner will make great efforts to influence joint venture operations. The top management team is a highly focused issue as most parent firms attempt to manoeuvre their own personnel into the joint venture, owing

either to their work experience or to cost considerations. Lane and Beamish (1990) argued that the decision whether to recruit a large proportion of local managers depends upon the joint ownership position of foreign partners. Killing (1983) found that dominant parent joint ventures do not employ managers from their passive parents, whereas, in order to enhance information flow and to capture the skills of parent companies, shared management joint ventures employ managers from both sides.

The joint venture management's objectives are important to its operation. Dymsza (1988) noted that a key factor that leads to success or failure of a joint venture is achievement of the major goals set for the joint venture management. Although theoretically it is ideal that these goals integrate the goals of both parents in a congruent manner, in many cases, the joint venture management's goals stand as a separate system existing in parallel with the parents' goal sets.

It is worthwhile noting that marketing considerations play a primary role when international firms evaluate the joint venture approach. Lack of local market knowledge is usually the foreign firm's major disadvantage when entering a host country, such as China, in which the cultural background and business practices are unique. Therefore, joining with a national firm may be the best way to obtain the critical local marketing skills and contacts as well as distribution channels. A local partner can usually provide quick access through its existing market position.

Yan and Luo (2001) developed a refined model for the assessment of joint venture operation to take into consideration inter-partner fit both at the time of founding and during the post-formation dynamics. This model predicates: (1) joint venture partners' strategic objectives; (2) contribution of critical resources; (3) agreement upon the ventures' operation strategy, policies, and culture; (4) the structure of the partners' relative bargaining power and control over the venture's operation.

The existing literature on the operation and management of international joint ventures had paid significant attention to the fits or how to make the fits within joint venture



strategic objectives, in organisational structure, and in inter-partner relationship. However, it has paid very little attention to the misfits within joint venture partners' strategic objectives, organisational structure, and inter-partner relationship, especially, the subsequent manoeuvres of each joint venture partner if a misfit takes place. None of these aspects has been fully addressed.

## **2.2 International Joint Venture Evolution**

For the purpose of a more comprehensive understanding of the dynamic evolution of international joint ventures, this section firstly gives a brief review of existing literature on the development of international joint ventures. It then introduces theoretical discussions on joint venture instability. Finally, it introduces the theory of joint venture structural reconfiguration by presenting both the driving and the restraining forces for restructuring over the course of joint venture development.

### **2.2.1 Joint Venture Development**

Joint ventures, like any organisation, undergo a cycle of creation, institutionalisation, and, with high probability, termination (Kought 1988). The existing literature has paid significant attention to the early stages of joint venture development, such as formation. Researchers have focused on comparing joint ventures with other entry modes and on the associated incentive schemes from the foreign firm's perspective (Anderson and Gatignon 1986; Beamish and Banks 1987; Hennart 1988, Gomes-Casseres 1990; Hill, Hwang and Kim 1990; Tallman and Shenkar 1994; Li 1995; Chi and Mcguire 1996; Nordberg, Cambell and Verbeke 1996), selection of appropriate partners and/or parent control structures (Tomlinson 1970; Killing 1983; Harrigan 1986; Geringer 1988; Gerigner and Hebert 1989), and formulation of strategies for, and management of joint venture negotiations (Tung 1984; 1988; Weiss 1987, 1990).

These research streams have generated useful insights into conditions leading to joint venture formation, and have enhanced our understanding about a series of important decisions regarding alternative organisational designs, partner selection, control

structures, and negotiation strategies. Previous studies that have examined joint ventures beyond the formation stage have, with few exceptions (Killing 1983; Blodgett 1992), focused on the termination of joint ventures, such as acquisition, liquidation, or bankruptcy, in order to characterise venture instability. Hence, the argument is that the existing literature on joint venture development has only focused on the formation (and termination) of international joint ventures, whilst missing the most exciting and arguably the most challenging implementation part of their development. Studying the development process by which international joint ventures evolve over time promises to be one of the most important areas in the research into international joint ventures. In supporting this argument, Yan and Luo (2001) also argued that the dynamic development of joint ventures after their establishment is not sufficiently understood, along with the evolving process by which the joint operation relationship between the partners unfolds.

Another critical aspect of joint ventures concerns changes in joint venture control structure over time. Because of the potential effect of control structure on venture performance, it is particularly important to study the process of structural change. Previous researchers (Hamilton and Singh 1991; Yan and Gray 1994; Doz 1996; Inkpen and Beamish 1997; Yan and Luo 2001) examined the specific forces driving toward or against structural reconfiguration. They identified that, in the process of development, joint ventures change their structure of governance over time, so that significant reallocations of management control occur between the partners. A joint venture is structurally unstable if control over its strategic and operational management shifts frequently between the partners. However, it is structurally more stable if its control structure remains unchanged for extended periods of time.

Nevertheless, changes in corporate strategies always transform an organisation (Johnson and Scholes 1993; Mintsberb; Ahlstrand and Lampel 1998). As changes in the control structure of a joint venture often imply changes in the overall joint venture strategies, it is therefore logical to think that a joint venture may evolve or be transformed into another business form, or to some extent, that there should be certain evolving patterns, in the context of the change in control structure of joint ventures. Obviously, previous studies

on joint venture development (Hamilton and Singh 1991; Yan and Gray 1994; Doz 1996; Inkpen and Beamish 1997; Yan and Luo 2001) failed to address this issue.

### **2.2.2 Joint Venture Instability**

An international joint venture as a transitional form of organisation is inherently unstable in design (Davidson 1982; Porter 1990). The additional complexity of an international joint venture is that its creation is the product of two or more existing firms, which jointly exercise control by right of equity ownership. Harrigan (1986) concluded that joint ventures are a transitional form of management – an intermediate step on the way to something else. Thus, it is a widely accepted premise that international joint ventures represent an inherently unstable and problematic form of organisation (Franko 1971; Porter 1990; Das and Teng 1999).

In the context of the dynamic nature of international joint ventures, reported instability rates within international joint ventures have ranged from 25 to 75 per cent (Chowdhury 1988; Geringer and Hebert 1991; Blodgett 1992; Lee and Beamish 1995; Makino 1995; Hennart, Park and Russo 1996; Park and Ungson 1997; Kim and Zeng 1998). For joint ventures formed in developing or transforming economies, the turbulent political and economic environments, together with the inter-cultural and inter-organisational dynamics, have made managing international joint ventures particularly challenging (Reynolds 1979; Child and Markoczy 1993; Beamish 1993; Peng and Heath 1996).

Previous studies on the instability of international joint ventures have employed two major approaches: (1) an outcome-oriented approach, which characterises instability as termination of joint ventures through various avenues or as change in the partners' ownership structure and (2) a process-oriented approach, which defines instability as major reorganisations or contractual renegotiations (Yan and Luo 2001).

#### **(1) Instability as Termination or Change in Ownership Structure**

The dominant approach treats instability as termination of the joint venture or change in its ownership structure. This approach was originated in Franko's (1971) pioneering

study of U.S. manufacturing joint ventures abroad and was later adopted by a variety of scholars (e.g. Gomes-Casseres 1987; Lee and Beamish 1995; Makino 1995; Hennart and Zeng 1997).

Franko (1971) considered three categories of instability: (1) where the U.S. firm increased its ownership to more than 95 per cent, thus converting it to a wholly owned subsidiary; (2) where the U.S. firm increased its equity holding from a minority or 50-50 split to a majority under 95 per cent; and (3) where the joint venture was sold out or liquidated by mutual consent. Franko reported an instability rate of 28.5 per cent. Adopting Franko's measures, Gomes-Casseres (1987) studied 5933 U.S. manufacturing subsidiaries abroad and reported that about a third of the ventures went through some form of ownership changes. Outright sales occurred in 37 per cent of the ventures, and changes in ownership structures accounted for the remaining 52 per cent of the unstable ventures. More recently, using similar measures, Hennart and Zeng (1997) studied Japanese joint ventures in the United States and observed very high ownership instability (68 per cent). In contrast, relatively low instability rates have been reported among Japanese (Makino 1995), Korean (Lee and Beamish 1995), and China joint ventures (Beamish 1993).

Harrigan (1988a) reported that about 55 per cent of the 895 inter-firm alliances in her study were terminated and thus unstable. Barkema and Vermeulen (1997) built a longitudinal database of foreign entries by twenty-five Dutch multinationals in seventy-two countries between 1966 and 1994. Of the 228 international joint ventures in the database, 49 per cent were terminated before 1994. Kogut (1989, 1991) examined international joint venture termination by focusing on either dissolution or acquisition. Of the ninety-two joint ventures in his sample, twenty-seven were terminated through dissolution and thirty-seven through acquisitions. Dissolution was found to be driven by changes in competitive rivalry within the venture's industry, while acquisition was driven by changes in partners' strategies. Park and Russo (1996) found that, in a sample of 204 joint ventures in the electronics industry, 56 were terminated through liquidation and 82 through acquisition, representing an overall instability rate of 68 per cent.

## **(2) Instability as Reorganisation or Contractual Renegotiation**

In addition to termination, several studies have paid attention to the structural and operational aspects of joint ventures. Killing (1983) classified a joint venture as unstable when it had experienced a drastic shift in the venture's parent control structure. During the two-year observation period, seven out of the thirty-five joint ventures were terminated and five others underwent a major reconfiguration of their control structure due to poor performance. Therefore, about 35 per cent of the ventures in this relatively small sample were categorised as unstable. The use of major reorganisation as a measure of instability was also found in several other studies (Beamish 1984; Lee and Beamish 1995).

Blodgett (1992) investigated instability by focusing on inter-partner renegotiations of a prior contract. The unit of analysis of Blodgett's study was the partnership contract rather than the venture itself, and incidence of contract renegotiations was used to indicate instability. The process-oriented perspective represented by Killing (1983) and Blodgett (1992) is important because the focus has moved from documenting the termination rates of international joint ventures to investigating factors triggering or contributing to instability in operating these ventures.

More recently, Yan and Luo (2001) argued that in the majority of prior studies, instability has been treated as a dependent variable to signify the venture's ultimate destination. Consequently, various factors contributing to instability have been identified, including conflicts in shared management, control/ownership structures, the impact of the external environmental forces and cross-cultural differences.

### **▪ Inter-Partner Conflicts in Shared Management**

Joint ventures motivated on the basis of competition are vulnerable to changes in the competitive structure of the market, in each partner's competitive position and in the shift in bargaining power of the partners. Whereas the design of the venture and overall partner relationship can mitigate competitive incentives, the sources of destabilising pulls are often inherent in the original motivations to establish the venture (Kogut 1988).

A key feature of a joint venture is shared management between partners from different countries. Partners could disagree on just about every aspect of a venture's management. Therefore, inter-partner conflict in shared management is often a driving force for instability (Killing 1983; Kogut 1989). Harrigan (1988) found that differences between the partners in founding goals, strategic resources, and corporate cultures were responsible for shorter joint venture duration. Das and Teng (1999) argued that joint venture instability occurs as a result of internal tensions, which develop within the partnership. Joint venture partners often find significant differences in terms of how to run the joint venture. One party may prefer to replicate its operational procedures within the joint venture whereas the other stresses the venture's need for autonomy, in order to adapt to new markets, technologies, or products.

- **Control/Ownership Structures**

The structure of control/ownership has been found to influence joint venture instability. Schann (1985), and Beamish (1985) argued that since dual control is inherently problematic, joint ventures, which are dominated by one of the partners are more likely to be stable than shared joint ventures. Killing (1992, 1993) also found that a joint venture with a dominant partner could minimise coordination costs and hence outperform shared-control joint ventures. However, an unequal division of ownership may give the majority holder greater power, which may be used to the detriment of the minority owner.

In contrast, Harrigan (1988) argued that a balanced ownership joint venture in which each partner's bargaining power is evenly matched is more likely to produce mutual accommodations. Empirically, Bleeke and Ernst (1991) found that joint ventures with an evenly split ownership had a higher success rate (60%) than ventures dominated by one party (31%).

- **Impact of External Environments**

The environment, presenting itself to an organisation as a set of general forces, is the central actor in the strategy-making process. An organisation must respond to these forces, or else be 'selected out'. Leadership thus becomes a passive element for the

purposes of reading the environment and ensuring proper adaptation by the organisation (Mintzberg, Ahlstrand and Lampel 1998). No matter what the initial agreement on control and ownership may have been at the start of a venture, environmental changes over time may shift the relative bargaining power among the partners and prompt new dynamics around the partnership, which then affect the joint ventures' stability.

Changes in external environments, such as local government policies and industry structures, may also influence joint venture instability. Kogut (1988) argued that changes in the environment over the time of the joint venture's development can affect dramatically a partner's initial strategies and the initial balance of bargaining power and further affect the stability of the joint venture. It has been widely documented that unanticipated major changes in local political environments (e.g. changes in government policies regarding foreign direct investment) affect international joint venture operations and contribute to venture instability (Blodgett 1992; Brewer 1992; Boddewyn and Brewer 1994; Vernon 1997). The past several decades have witnessed such drastic changes in many countries (Contractor 1990; Yan and Gray 1994; Vachani 1995).

#### ▪ **Cross-Cultural Differences**

Cultural differences often influence the way in which the partners in a joint venture make strategic decisions and solve problems. Although the positive effect of cultural differences on joint venture instability has been evidenced in empirical studies with larger samples (Hennart and Zeng 1997; Li and Guisinger 1991; Pennings, Barkema and Douma 1994; Shenkar and Zeria 1992), nevertheless, the findings of several recent studies demonstrate that the relationship between partners' cultural differences and venture stability may be more complex and inconclusive than previous research has suggested. For example, Barkema and Vermeulen (1997) argue that the different dimensions of cross-cultural differences between joint venture partners might have different effects on the venture's instability. Park and Ungson (1997) tested the effect of inter-partner cultural differences on the dissolution of joint ventures but found no support for most of the hypothesised relationships. However, they found a significant effect of inter-partner

nationality on venture termination, but in an opposite direction to previous findings: the greater the cultural distance, the less likely the venture is to dissolve.

The existing literature on joint venture instability has clear limitations: the research has been dominated by a static approach that treats instability of an international joint venture in terms of the end status (e.g. termination or liquidation), whereas the evolution process and evolving patterns of joint ventures have not been thoroughly studied.

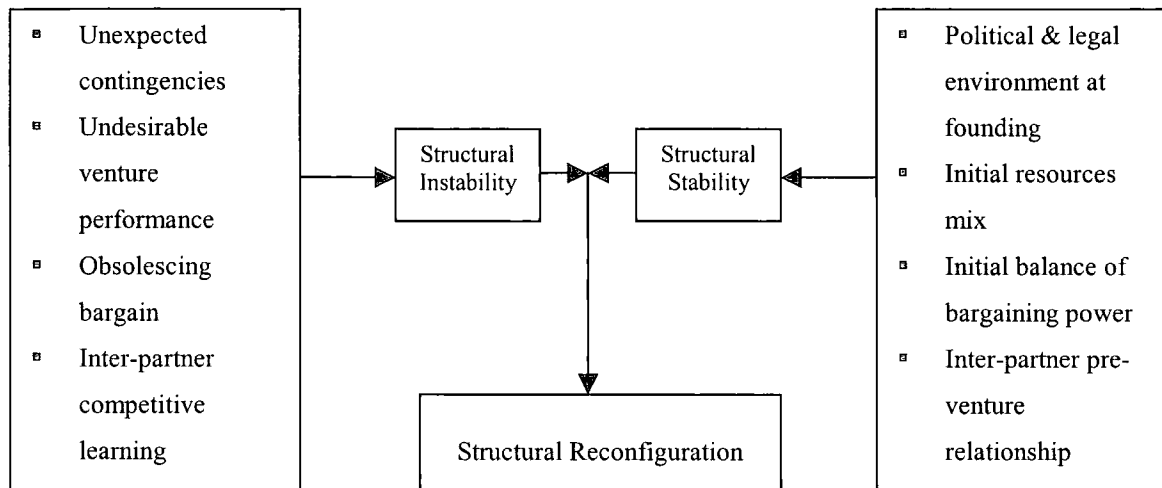
### **2.2.3 Joint Venture Reconfiguration**

Although international joint ventures represent an inherently unstable and fragile form of organisation, previous studies, with one exception (Yan and Luo 2001), reported various factors contributing to joint venture instability but failed to explain why many international joint ventures have managed to survive and succeed over a long period of time.

Like independent organisations, it is assumed that joint ventures are affected by both stabilising and destabilising forces. Because of their inter-cultural and inter-organisational hybrid nature, as well as the competitive and opportunistic behaviours in which the partners are likely to engage (Kogut 1989; Hamel 1991), there are tensions between stability and change in joint ventures, which are considerably more complex than in single, stand-alone organisations.

Yan and Luo (2001) have identified that there are two contrasting sets of forces to drive or restrain joint venture instability and stability. Based on these two sets of forces, they have created a framework of structural reconfiguration in international joint ventures (Figure 2.2-1).



**Figure 2.2-1 Model of Structural Reconfiguration in International Joint Ventures**

Source: Adapted from Yan and Luo 2001, p.264

Yan and Luo (2001) argue that the structural stability of international joint ventures depends on the balance and interactions between the two sets of forces. A complete understanding of joint venture dynamics and evolution requires consideration of both sets.

### **(1) Driving Forces for Structural Instability**

Based on the dynamic nature of international joint ventures, Yan and Luo (2001) identified four distinct explanations for structural changes and instability: instability prompted by unexpected contingencies, undesirable venture performance, an obsolescing bargain with the local parties, and inter-partner competitive learning.

#### **▪ Unexpected Contingencies**

The contingency theory (Lawrence and Lorsch 1967) attributes structure changes to organisational adaptation in which organisations alter their internal configurations to fit the new, changing environment. In the joint venture setting, structural instability is caused by contingencies unforeseeable at the venture's founding. As Harrigan (1986) notes, changes will occur in every venture's design because managers can rarely

anticipate exactly how their agreement to cooperate will evolve. She further identifies a range of change stimuli leading to inter-partner renegotiations. These stimuli emerge as a result of changes in the partners' strategies and bargaining power, changes in the venture's strategic importance to the parents, shifts in the parent-venture balance with respect to coordination and control, and dynamics in the venture's industry structure. Lecraw (1984) indicates that renegotiations will lead to an adjustment of ownership share if the relative bargaining position between the partners changes.

A major source of unanticipated changes is the local political environment, such as government policies regarding foreign direct investment. Over the past several decades, drastic changes in the attitude of the host government towards foreign direct investment have been witnessed in Canada, Mexico, Taiwan, Korea, India, and China (Contractor 1990, Vachani 1995). Blodgett (1992) provided evidence that ownership structures change as the host government shifts its policies on foreign direct investment from 'restrictive' to 'non-restrictive'. In their study of U.S. joint ventures in China, Yan and Gray (1994) also found that unexpected changes in local government policies over time served as a stimulus for shifts in the partners' relative bargaining positions and the parent control structure.

#### ▪ **Undesirable Venture Performance**

The second driving force for structural changes is the joint venture performance undertaken by venture partners. The effect of joint venture performance on control structure can result in two mutually opposing outcomes (Yan and Luo 2001). Superior performance of a joint venture may serve as a stabilizing force, while undesirable performance triggers instability. Poor performance implies that the venture has failed to achieve the objectives of at least one of the partners. Thus, unsatisfied partner needs create stimuli for restructuring or reallocation of control. Killing (1983) observed that when the joint venture had not performed well, parent companies increased their intervention, and thus reduced the level of autonomy of the joint venture management. Yan and Gray (1994) noted that the performance of a joint venture could reshape the relative bargaining power between joint venture partners, because superior performance

creates an additional bargaining chip for the dominant partner to enhance its control. On the other hand, poor performance provides a stimulus for the subordinate partner to propose a more active role in governing the venture's operation, thus affecting the structural stability.

#### ▪ **Obsolescing Bargain**

The third driving force for structural changes is the bargaining relationship between overseas joint venture partners and the local government/partner. In this regard, the central concern has been the foreign partner's gradual reduction of its ownership and/or management control. From this point of view, structural reconfiguration results directly from an 'obsolescing bargain' (Vernon 1977; Vachani 1995), which occurs when the foreign partner's relative bargaining power vis-à-vis the host government/partner erodes over time as it invests irreversible, transaction-specific resources in the local economy that it actually becomes hostage to the host government/partner (Fagre and Wells 1982). As a result, foreign participation in a joint venture may be reduced, which eventually can lead to expropriation (Davidson 1982). Dymsza (1988) suggests that in joint ventures between developed and developing country partners, the importance of the developed country partner's contribution to the partnership tends to decline over time, at least from the local partner's perspective. When this occurs, structural changes are necessary in which major management responsibilities are turned over to the local partner. The conclusion is that the foreign partner's management control over the venture will decrease over time as a result of an obsolescing bargain, prompting structural instability.

#### ▪ **Inter-Partner Competitive Learning**

The fourth driving force for structural instability focuses on inter-partner competition. Joint ventures are mixed-motive games in which the partners cooperate and compete simultaneously (Hamel, Doz and Prahalad 1989). Das and Teng (1999) argued that the tension between cooperation and competition create one of the key dilemmas existing throughout the lifetime of a joint venture. Kogut (1989) attributed joint venture failure to potential competition between the partners. Instability and the limited duration of joint ventures may be a direct result of inter-partner competitive learning (Hamel 1991; Inkpen

and Beamish 1997). From this perspective, structural changes in joint ventures are inevitable.

Hamel (1991) argues that venture sponsors form alliances to extract and internalise the skills of their partners, and thus either improve their own competitive position or reduce their partnership's capability for autonomous action within and without the partnership. This competitive motive, however, complicates the partnership. The potential for misunderstanding and mistrust increases when alliances involve learning-oriented versus output-oriented goals (Westney 1988). Learning changes partner inter-dependency, and can shift the relative bargaining power between the partners, and thus make the original bargain obsolete, because the faster learner is likely to raise its 'price' for further cooperation (Hamel 1991). Consequently, reallocation of control becomes necessary and stability will suffer (Inkpen and Beamish 1997).

## **(2) Restraining Forces for Structural Stability**

Another aspect of structural reconfiguration is that there are forces in organisations that counter changes and help retain certain organisational characteristics. Scott (1992) noted that the form organisations acquire at their founding is likely to affect the structure they retain throughout their lives. Previous studies have suggested that organisational factors, such as the characteristics of the founding executives (Kimberly 1980; Mintzberg and Waters 1982), or the top management team (Eisenhardt and Schoonhoven 1990), as well as the firm's initial business strategy (Boeker 1989), can create structural stability.

Yan and Luo (2001) identify four principal sources of structural stability: the local political and legal environments at the venture's founding, partner initial resource contributions, the original match of inter-partner bargaining power, and pre-venture relationships between the partners.

### **▪ Local Political and Legal Environment**

The first restraining force for stabilising structural changes is the local political and legal environment, which refers to the elaboration of social norms, laws, rules, and

requirements to which an individual organisation must conform in order to receive legitimacy and support (Meyer and Scott 1983). Organisations formed at the same time under the same institutional pressures exhibit the same structural features (DiMaggio and Powell 1983; Tolbert and Zucker 1983). Thus, an organisation's initial structure reflects institutional forces present at its founding. Even though the institutional environment may change over time, its imprint on the structure of the organisation is sustained. However, previous studies have failed to address the fact that this driving force for structural stability would very much depend on the other variables, such as joint venture performance, the partners' individual strategies and inter-partner leaning. It is not rational to suppose that with a drastic change in the local political and legal environment, one of the venture partners could gain a great deal by prompting a structural change, but would take no action simply because of structural inertia.

#### ▪ **Partner Initial Resource Contributions**

The second restraining force with the effect of stabilising structural changes is the partners' initial resource contributions. Scott (1992) explained that, once acquired, the mix of initial resources out of which an organisational structure is created has a lasting effect on the attributes of that structure. Unlike single organisations whose initial resources are obtained directly from the environment, a joint venture's starting resources (including capital, technology, local and/or export marketing channels, and management expertise) are, for the most part, made available by its partners (Yan and Luo 2001). Blodgett (1991) and Hebert (1994) argued that the specific types of resource contributed by a partner might significantly affect the particular domains in the venture's operation in which this partner exercises control. Similarly, Killing (1983), Yan and Gray (1994), Child et al. (1997) stated that the relative amount of critical resources contributed by the partners constitutes the key source of relative bargaining power, a primary determinant of management control structure.

According to Yan and Luo (2001), there are four reasons for joint ventures to retain their initial configuration of resources: Firstly, the availability of a specific resource to one (rather than the other) partner is relatively stable because of the imperfect imitability or

imperfect mobility of the resource (Chi 1994). Therefore, once a partner initially contributes a specific type of resource, the same partner tends to continue this contribution over time. Secondly, contractual agreements may be reached between the partners that require them to continue their contribution of the resource committed at the venture's formation. Thirdly, it is likely that the joint venture's initial production/operation technology is designed in such a way that it depends exclusively upon the types of inputs available at the founding. Therefore, the inflexibility of the venture's technological system may prevent it from shifting to resources other than the mix that was initially available. Finally, anti-opportunism arrangements, such as guaranteed dominant control by the contributing partner over its resource contribution, help maintain the initial mix of resources. Collectively, these four factors help to keep stable the initial areas of management control by each partner.

#### ▪ **The Initial Balance of Bargaining Power**

The third restraining force, which stabilises structural changes, is the initial balance of bargaining power. Partner resource contributions to joint ventures have been argued to be the most critical base of bargaining power (Harrigan 1986; Harrigan and Newman 1990). In addition, empirical evidence suggests that there is a positive relationship between bargaining power and parent control (Fagre and Wells 1982; Lecraw 1984; Yan and Gray 1994; Child et al. 1997). Many researchers have provided convincing arguments and empirical evidence that partner bargaining power does change as a result of environmental, inter-organisational, or organisational dynamics (Harrigan 1986; Hamilton and Singh 1991; Yan and Gray 1994; Inkpen and Beamish 1997). However, the balance of relative bargaining power achieved at the venture's formation is the real stabilising force, and is resistant to change (Yan and Luo 2001).

Lax and Sebenius (1986) and Hamel et al. (1989) concluded that the inter-partner competitive motive for bargaining power and control provides the incentive for both partners to monitor the changes in their power position, and for the partner which loses power to take remedial action. Similarly, Yan and Gray (1994) illustrated, with their comparative case data, the process in which a dynamic equilibrium of bargaining power

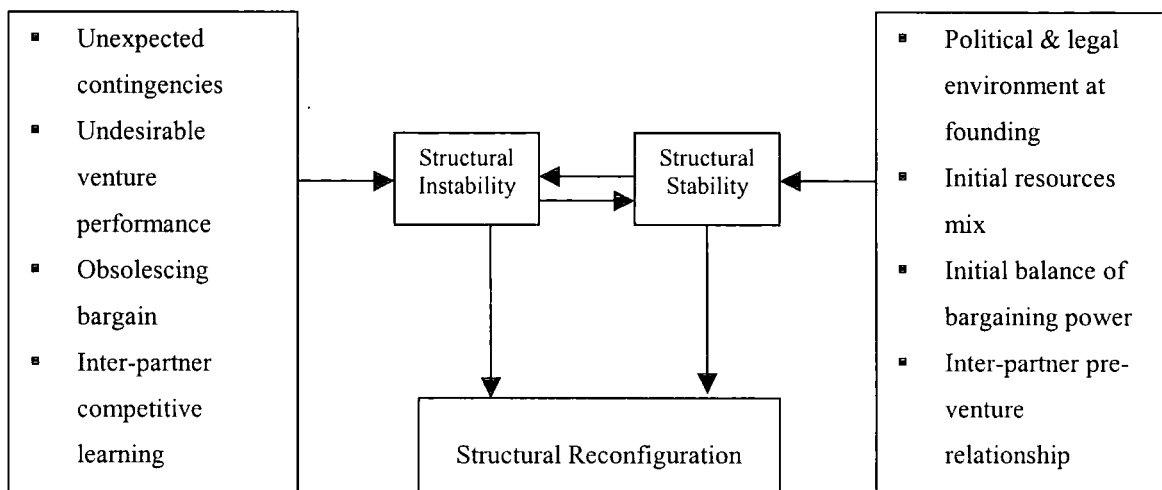
is maintained. In several cases, the joint venture depended upon the foreign partner for importing inputs, such as raw material or components. As joint ventures started to localise raw material sourcing, the foreign partner's bargaining power diminished while the local partner gained power. At the same time, however, new power accrued to the foreign partner, who either brought in new products, or raised the price of future technology transfers when the technology agreement was open to renewal. Although the power bases for each partner change over time, the overall initial control structure of a joint venture will be retained as a result of the partners' ongoing adjustments to regain their lost bargaining power.

#### ▪ **Inter-Partner Pre-Venture Relationship**

Finally, the fourth restraining force for stabilising structural changes is the prior relationship between joint venture partners, which can range from cold calls to blind dates, arm's-length trade relationships, and contractual collaborations (Gray and Yan 1997). Prior relationships appear to be particularly significant in developing a trusting relationship between the partners (Parke 1993; Ring and Van de Ven 1994; Gulati 1995). Trusting partners tend to behave in a trustworthy manner in dealing with each other, and expect to generate a trustworthy response in return. Lack of trust between the partners at the venture's formation can be a major source of structural instability (Kogut 1989). The pre-venture experience can also provide the partners with insights into the building of consensus about what control structures should be adopted. Such a decision is likely to be made by considering the best interests of the entire partnership, rather than the one-sided interest of an individual partner in attempting to control the venture and in safeguarding against the other's opportunism (Yan and Luo 2001). In this case, important management decisions are made by consultation between the partners, rather than by attempts to impose the division of power as prescribed by the contracted formal control structure. Thus, the conclusion is that the pre-venture relationship between the partners affects the joint venture's structure by leaving an imprint on its initial design, as well as by reducing reliance on the formal control structure, thereby minimising the need for structural reconfiguration (Ring and Van de Ven 1994; Gulati 1995; Gray and Yan 1997; Yan and Luo 2001).

The limitation of Yan and Luo's (2001) model is that although they have addressed the balance of the two sets of forces for joint ventures' stability, they did not deal with adequately the interrelated and interacting relationships of the two sets of forces. Under certain circumstances, the two sets of forces may be changed over and work as opposing forces. Hence, the model is modified to address the interrelated relationship of the two sets of forces:

**Figure 2.2-2 The Modified Model of Structural Reconfiguration in International Joint Ventures**



To summarise, as both sets of forces influence the venture, actual changes in its structure depend upon the relative strength of the two sets of forces. In other words, structural reconfiguration will not occur unless the overall destabilising forces are stronger than the overall stabilising forces.

#### 2.2.4 Joint Venture Exit Reasons

Although there are partners who deliberately create joint ventures for short-term benefits, joint venture partners usually establish long-term strategic objectives but may have to face a premature termination of the venture. Clearly, it is important to be alert to factors that potentially lead to the demise of the joint venture. These factors may be hidden at the start but become more evident over time. Kogut (1988) also argued that the causes for the



termination of a joint venture frequently lie in those causes responsible for its creation. Yan and Luo (2001) identified five major reasons for exit from joint ventures:

▪ **Unnoticed Yet Irreconcilable Inter-Partner Strategic Differences**

It quite often happens that two firms create a partnership before they fully understand each other, particularly the significant differences between them. There are several areas in which the partners can differ significantly. First, incompatible strategic goals and directions set for a joint venture can intensify as the venture evolves. When such incompatibility cannot be overcome, partners are often left with no choice but divorce. Second, joint venture partners often find significant differences in terms of how to run the joint venture. Conflict is likely to follow, which can lead to the dissolution of the joint venture. Also, the partners may be unable to reach an agreement on senior management appointments. Third, the challenge of overcoming differences in managerial culture and styles between cross-cultural partners is often extremely difficult to cope with. For instance, strains in Western-Japanese joint ventures from corporate, industrial, and national cultural differences abound. Disputes arise over clashes in work ethics, corporate culture, human resource practices, decision-making styles, incentive structure, and reward systems. Inter-partner conflicts in these areas can swell into insurmountable problems and cause the failure of the venture.

▪ **Changes in Partner Strategies**

It should not be a surprise that, as joint ventures evolve, significant changes may occur in the parent firms as well as in the venture's operational environment. These changes prompt new dynamics around the partnership and often contribute to a venture's termination.

▪ **Inability to Meet Partner Expectations**

Non-performance can doom a joint venture to failure. Targets may be missed as a result of inadequate resources, time, or effort, or perhaps because of unrealistically ambitious goals. On the other hand, the targets set for the venture may shift due to rapid market

developments, changing strategies, or uncontrollable events. However, joint ventures might also be terminated due to the failure to meet a partner's expectations.

▫ **Unrealised Partner Commitment**

When one or more partners fail to make a financial commitment as specified in the founding or renegotiated agreement, the venture can collapse. For instance, many Sino-Korean joint ventures in Dalian had to be dissolved during 1997-1998, due to the financial problems that Korean parent firms suffered as a result of the Asian financial crisis.

Another aspect of unrealised partner commitment concerns the partner's resource contributions to the joint venture. Most joint ventures are formed out of the assumption that the partner firms will provide the organisational strengths that are needed by other partners. However, false expectations about partner capabilities can cause joint venture termination. Since the partners fully expect that the resources they contribute to the venture would be effective, when one or both partners' presumed competencies or strengths fail to generate expected results, joint ventures have to confront the risk of dissolution. The wider the perceived gap between what partners pledged and what they actually deliver, the greater the difficulties for the joint venture.

▪ **Mission Fulfilled**

The best scenario for joint venture dissolution is when the venture has achieved its strategic goals as set by the partners. In particular, when the partners join forces in order to acquire knowledge from each other, imitation is frequently the goal of each joint venture partner, and when imitation is fully achieved, the sign of success is termination (Kogut 1988).

## **2.3 Conclusion**

In this chapter, a set of variables relating to international joint venture and especially Yan and Luo's (2001) framework for structural reconfiguration in international joint ventures

have been discussed and analysed. A theoretical platform has been established for further analysis of China-based joint ventures.

The review of existing literature on joint ventures reveals that previous studies have focused mainly on joint venture formation and termination. The evolution process of international joint ventures, with few exceptions, has not been thoroughly studied and no adequate analysis has been made of the pattern of international joint ventures' evolution, especially of joint ventures in transitional economies.

## Chapter 3                      China-based Joint Ventures

### 3.0    Introduction

This chapter moves China-based joint ventures into the centre of attention. For a better understanding of China-based joint venture activities, this chapter is divided into four main sections. The first one highlights the characteristics of China-based joint ventures and to review the development of these joint ventures over the 1980s and the 1990s. The second one aims to establish a model framework to address the internal variables affecting development strategies of China-based joint ventures over time. The third section reviews China's transitional business environments in the middle and the late 1990s and identifies changes and their implications for the development of China-based joint ventures. The final section summarizes main findings of this chapter. Findings derived from this chapter will be used for subsequent analysis.

### 3.1    Overview of China-Based Joint Ventures

#### 3.1.1    Background

##### **(1) Joint Venture as A Political Compromise**

In order to speed up its industrial reconstruction, China introduced foreign capital and technologies in the 1950s from the former Soviet Union and Eastern European countries. But during the 1960s and the 1970s, the Chinese economy was closed. No foreign capital and technology were used by China for almost two decades.

At the Third Plenum of the Tenth Party Central Committee in December 1977, Deng Xiaoping emerged from political disgrace for a second time and began aggressively to reassert his leadership (Kau and Marsh 1993).

According to Li (1995), although the political atmosphere in the late 1970s was more liberal due to the end of the Cultural Revolution, the greatest problem China faced was its

backward technology, which limited its economic development. Hence, China started to actively seek foreign technology in the late 1970s, with a view to accelerating its modernisation process. However, it soon became clear that to revitalise the economy, China would need not only advanced technology and but also capital and management skills. Therefore, the choice was clear to the Chinese leadership. For a rapid regeneration of capital, technology and management skills, China had to use foreign resources. Total self-reliance would greatly restrict its economic development (Li 1995).

However, there were different views among the Chinese leadership. The reformers were pushing for profound reforms and opening up of the economy, but conservatives were afraid that reliance upon foreign resources would lead China towards capitalism. The reformers placed a high value on the potential economic benefits to be gained from using foreign resources and were willing to reap these benefits. In contrast, the conservative were less certain of the value of foreign capital, technology, and management skills.

Pearson (1989) reported that when the open-door policy was initiated in 1979, the reformers also shared two concerns about foreign investment with the conservatives: protection of Chinese sovereignty, and maximisation of China's potential benefits from foreign investment. A consensus on these issues led to a shared belief in the need for strict controls over foreign capital. As a result, the policy towards foreign direct investment in the late 1970s was formulated to promote growth and the efficiency by absorbing foreign capital, technology and management skills only in selected offshore Chinese while guarding against loss of control to foreign capitalists (Li and Xu 1994).

Chapter 2 shows that a host country would benefit more from joint ventures than from wholly foreign-owned enterprises (Janger 1980; Killing 1982; Harrigan 1984; Beamish 1988; Kogut 1988). In view of the realities in China, the Chinese leadership chose the joint venture option to achieve their goals. They believed that joint ventures could secure access to foreign resources, help to reform China's large state-owned enterprises, create employment opportunities, and also allow maximum control over foreign investors. As a result, the joint venture entry mode was accepted as a political compromise for the

Chinese leadership, as it matched the goals of both reformers and conservatives. The wholly foreign-owned enterprise mode was dropped at this early time.

### **(2) Joint Venture as A Compromise On Entry Strategies**

Previous studies on China-based joint ventures (Daniels 1986; Davidson 1987; Tai 1988; Beamish 1989; Pearson 1989; Shenkar 1990; Aiello 1991; Bleeke and Ernst 1991; Newman 1992; Glaister and Wang 1993; Kim 1996) concluded that Chinese and overseas investors' motivations for entering joint ventures in China were different, and joint venture deals were always a result of compromises. Many overseas firms might have preferred a wholly foreign-owned venture in the first place, but ended up with a joint venture due to the Chinese government's policy and preference. As a result of the compromises made at the entry stage, a joint venture deal could be set up, but both Chinese and overseas partners might then pursue their own individual strategies during the operational stage, creating scope for conflicts and differences over technology transfer, exporting, product range, equity sharing, and management styles.

### **(3) Origin of Overseas Investors**

China's official statistics ([www.moftec.gov.cn](http://www.moftec.gov.cn) 2001) show that Hong Kong and Macao have been the primary sources of investment in China-based joint ventures. However, since the early 1990s, the number of Taiwanese investment projects began to increase remarkably and Taiwan became one of the top five overseas investors. In effect, 66.85 per cent of foreign direct investment projects in China were not particularly 'foreign' (Table 3.1-1).

Beamish's study (1993) confirmed Chinese official statistics, which show that the origin of most overseas partners was 'overseas Chinese' rather than Western or Japanese investors. Indeed, investors from Hong Kong, Macao and Taiwan account for 63 per cent of total overseas investment in China.

**Table 3.1 – 1 Top Ten Investors in China (1979 - 2000)**

No.	Country origin	Number of projects	Percentage of total projects	Actual investment value (billion \$US)
-	Total	341538	100%	3076.31
1	Hong Kong	184824	54.12%	1547.94
2	USA	28702	8.40%	256.48
3	Japan	18769	5.50%	248.86
4	Taiwan	43516	12.74%	238.63
5	Singapore	8500	2.49%	148.20
6	Virgin Islands	2031	0.59%	93.95
7	Korea	12726	3.73%	88.37
8	Britain	2554	0.75%	75.84
9	Germany	2128	0.62%	48.11
10	Macao	6418	1.88%	36.36
11	France	1583	0.46%	35.82
12	Holland	722	0.21%	22.01
13	Canada	4351	1.27%	20.49
14	Malaysia	1913	0.56%	20.02
15	Australia	3864	1.13%	18.04
16	Others	18937	5.40%	177.16

Source: (1) *International Trade*1993, (2) Yang Canying, 1997 and (3) <http://www.moftec.gov.cn> 2001

### 3.1.2 Development of Foreign Direct Investment in China

International studies (Pearson 1991; Pan et al. 1993; and Fan 1996) earlier classified development of foreign direct investment in China into four phases: Foundation Period (1979 – 1984), Legislation Period (1985 – May 1989), Temporary Setback (June 1989 – 1991), and New Surge Period (1992 – present). The Chinese official classification is similar: Experimental Stage (1979 – 1983), Primary Development Stage (1984 – 1986), Adjustment and Consolidation Stage (1987 – 1991), and High Development Stage (1992 – present) (Li and Xu 1994; Li 1995; Yang 1997):

#### (1) Experimental Stage (1979 – 1983)

The Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment was promulgated on 8<sup>th</sup> July 1979. The general guideline behind this law was

that where foreign direct investment is concerned, China should permit it on terms over which the Chinese government can maintain substantial controls (Li 1995). As a result, despite considerable interests aroused by the new regulation, the initial inflow of investment activity was fairly slow (Table 3.1-2).

There were several reasons for the slow inflow of foreign investment. First, lacking experience in dealing with joint venture projects, the Chinese authorities took a very restrictive approach to setting up joint ventures and applied strict control over hard currency income and expenditure. Second, most bylaws were in the process of finalisation and the government was slow in their implement action. Third, foreign businessmen were wary of lack of supporting legal structures and tax regulations in China. Thus, in the first year after the joint venture law came into effect, only two joint ventures were approved by China's Foreign Investment Control Commission, and 90 percent of joint venture enterprises established during this experimental period were located in the four Special Economic Zones (Yang 1997).

**Table 3.1-2 China's Utilisation of Foreign Direct Investment (1979-1983)**

Year	No. of firms involved in foreign investment	% Increase compared with previous year
1979	2	-
1980	83	-
1981	320	285.5%
1982	518	61.8%
1983	638	23.1%

Source: Yang Canying, 1997; MOFTEC official statistics: [www.moftec.gov.cn](http://www.moftec.gov.cn) 2001

In May 1983, the State Council hosted the first national conference in Beijing concerning the utilisation of foreign direct investment. This meeting led to the publication of the Joint Venture Law Implementation Regulations on 20<sup>th</sup> September 1983. This represents an important step in relaxing restrictions on the setting up of joint ventures in China (Li and Xu 1994).



## (2) Primary Development Stage (1984 – 1986)

In May 1984, the Chinese government opened up a further 14 coastal cities – Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningpo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, and Beihai. Meanwhile, the State Council delegated the power for approving foreign direct investment to the provincial governments.

On 15<sup>th</sup> November 1984, the State Council promulgated the Temporary Regulations for Exempting and Reducing Corporate Income Tax, and Industrial and Commercial Tax in Special Economic Zones and the 14 Coastal Cities. Foreign invested enterprises in Special Economic Zones and Open Cities could enjoy a long period of tax holidays or considerable tax reductions. Later on, the government further approved setting up of 27 Economic and Technology Development Zones, where foreign invested business could enjoy similar preferential tax treatment.

Following successful experience in Special Economic Zones, establishment of joint ventures in coastal cities was speeded up. In 1984, the number of approved joint ventures was three times of that in 1983. In 1985, the government opened a further 40 coastal cities and 215 counties to foreign direct investment, and provided financial incentives to foreign invested enterprises in the first 14 coastal cities. These steps finally led to the first wave of inward foreign direct investment in China. Approved foreign investment projects in 1985 increased by 66 percent compared with that in 1984 (Table 3.1-3).

**Table 3.1-3 China's Utilisation of Foreign Direct Investment (1984-1986)**

Year	No. of firms involved in foreign investment	% Increase compared with previous year
1984	2166	239.4%
1985	3073	41.8%
1986	1498	-51.2%

Source: Yang Canying, 1997; MOFTEC official statistics: [www.moftec.gov.cn](http://www.moftec.gov.cn) 2001

### □ **Lifting of Ban on Wholly Foreign-Owned Enterprises**

According to an informal interview in 1998 with a deputy director of Dalian Economic and Technological Development Zone told that although no official notice has been issued, Chinese government officials at provincial and municipal levels attributed the lifting of the ban on wholly foreign-owned enterprises to the following two reasons:

- Deng Xiaoping and his followers gained the upper hand within the Chinese leadership.
- The sharp drop in foreign direct investment in 1986 impelled the government to change its policy.

The Law of the People's Republic of China Governing Wholly Foreign-Owned Enterprises was adopted at the fourth session of the Sixth National People's Congress on 12<sup>th</sup> April 1986. This law contributed to the surge of foreign direct investment in 1988. At this stage, most foreign investors were from Hong Kong and Macao. Joint ventures were mainly labour intensive ones, such as hotels, manufacturing factories and service projects. Most joint venture projects were located in the provinces of Fujian and Guangdong, and in some coastal cities. Foreign direct investment in the hinterland had hardly started (Li and Xu 1994).

### **(3) Adjustment and Consolidation Stage (1987 – 1991)**

From 1979 to 1985, the number of approved joint venture projects was on the increase for every year. In 1986, however, it dropped for the first time. The major reasons for the drop included joint ventures encountered difficulties in balancing their foreign currency books, the very complicated approval formalities, the bureaucracy of government departments and many operational problems (Li and Xu 1994). In a bid to reverse the slip, on 11<sup>th</sup> October 1986, the State Council promulgated the Provisions of the State Council of the People's Republic of China for the Encouragement of Foreign Investment. This document offers joint ventures further incentives in land usage, infrastructure, loans, corporate income tax, sales, imports and exports, and operational autonomy. On 3rd July 1988, the Provision of the State Council of the People's Republic of China for the

Encouragement of Taiwan Compatriots was promulgated to promote investment from Taiwan. In 1990, the State Council approved the development of Pudong, Shanghai. In the same year, the government approved the establishment of duty free zones in Shanghai and 13 other Cities.

In April 1990, the State Council amended the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment. This law guarantees that joint ventures will not be nationalised. It also for the first time allows an expatriate investor to be chairman of the board of a joint venture. With the promulgation of this legislation and efforts by all levels of the Chinese government, the slowing down of foreign direct investment in 1986 was reversed and the second surge of foreign direct investment appeared in 1988 (Table 3.1-4).

**Table 3.1-4 China's Utilisation of Foreign Direct Investment (1987-1990)**

Year	No. of firms involved in foreign investment	% Increase compared with previous year
1987	2233	49.0%
1988	5945	166.2%
1989	5779	-2.7%
1990	7273	25.8%

Source: Yang Canying, 1997; MOFTEC official statistics: [www.moftec.gov.cn](http://www.moftec.gov.cn), 2001

#### □ The 1989 Setback

Chinese official studies (Li and Xu 1994; Li 1995; Yang 1997) believe political turmoil in 1989 adversely affected inflow of foreign direct investment. Many foreign companies withdrew their equity from China and even more potential investors suspended their investment plans or negotiations. In response, the government took a more liberal attitude towards reform and the opening-up policy. China's regulatory framework and business environment for foreign direct investment further were improved. In 1991, the State Council promulgated the Law of the People's Republic of China on Corporate Income Tax of Joint Ventures and Wholly Foreign-Owned Enterprises, and further clarified preferential treatments for foreign invested companies in implementation bylaws.

Fan (1996) believed the drop in inward foreign investment in 1989 only a temporary setback. Wascher (1992) suggested that the slow down was caused by the retrenchment programme for combating inflation in 1989 and a programme in 1990 that attempted to reduce investment and money supply, and selectively control credit expansion. Seo (1993) also argued that the sudden switch to a tight money policy, the reduction of available credit, the increasing interest rates, and the reduction of loan guarantees, slowed down the whole economy.

#### **(4) High Development Stage (1992 – 2000)**

In early 1992, Deng Xiaoping visited South China and gave his famous South China tour speech. This accelerated China's reform and opening up to the rest of the world. In October 1992, the 14<sup>th</sup> Party Congress approved the establishment of a 'socialist market economy'. In November of the same year, the general framework for establishing such an economy was approved by the Chinese leadership. Consequently, China was put on track for the creation of a socialist market economy. The economy grew fast, with an average GDP increase of around 8 per cent from 1992 to 2000, and the supply of basic production materials improved considerably. All of these factors contributed to a new surge of foreign direct investment in China (*MOFTEC Annual Report 2001*).

According to *China Enterprise Daily* (September 15, 1994), by the end of 1993, the Chinese government had approved another Special Economic and Technology Development zones, 32 national Economic and Technology Development Zones, in addition to 52 high technology development zones, 339 opening cities and 919 opening counties. The number of registered enterprises with overseas investment and the amount of actual utilisation of foreign capital in 1992 exceeded the total number of the past 12 years (Table 3.1-5).

**Table 3.1-5 China's Utilisation of Foreign Direct Investment (1991-2000)**

Year	No. of firms involved in foreign investment	% Increased compared with previous year
1991	12978	78.4%
1992	48764	275.7%
1993	83437	72.2%
1994	47549	-43.0%
1995	37001	-22.1%
1996	24556	-33.6%
1997	21046	-1.42%
1998	19846	-5.70%
1999	17100	-13.8%
2000	22532	31.7%

Source: Li Lanqing, 1995; Yang Canying, 1997; MOFTEC official statistics: www.moftec.gov.cn 2001

In total, the Chinese government approved 283,820 foreign invested enterprises by the end of 1995. Among them, 216,143 were equity joint ventures and co-operative joint ventures, making them the dominant form of foreign direct investment (Table 3.1 – 6).

**Table 3.1-6 Foreign Direct Investment (1989 – 1995)**

Type of Investment	No. of projects	Percentage	Vol. of actual capital utilised
Joint ventures	174014	61%	US\$907.26 million
Co-operative joint ventures	42129	15%	US\$280.34 million
Wholly foreign-owned firms	67677	24%	US\$425.51 million
Total	283820	100%	US\$1765.92 million

Source: Statistics from Chinese Ministry of Foreign Economic Relations and Trade, 20<sup>th</sup> May 1997.

#### □ The 1997 Setback

1997 witnessed a sharp one-third decline in foreign direct investment. According to an official briefing by the deputy Minister of Foreign Trade and Economic Cooperation, Sun

Zhenyu, (*People's Daily – Overseas Edition*, 26th March 1998), the sharp drop was due to the following reasons:

- The Chinese government's adjustment of the foreign investment structure.
- The desire to attract foreign investment into infrastructure, high technology, agriculture, export orientation enterprises, and technology reform.
- Taxation on imported equipment for foreign-invested enterprises.

#### □ Significant Increase in Wholly Foreign-owned Enterprises

Because of favourable government policy and further opening up of the hinterland in the mid 1990s, the possibility of setting up wholly foreign-owned enterprises became attractive to overseas investors frustrated by the under-performance of existing China-based-joint ventures. They began to move towards wholly foreign-owned enterprises even before China changing legal and regulatory codes (Li and Xu1995; Yang 1997).

**Table 3.1-7 Foreign Invested Projects (1996-2000)**

	Form of FDI	1996	1997	1998	1999	2000
1	Joint ventures	12628	9046	8146	7065	8560
2	Contractual joint ventures	2849	2371	2010	1654	1755
3	Wholly foreign-owned enterprises	9062	9604	9674	8370	12199
4	Others	17	25	16	11	18
	Total	24556	21046	19846	17100	22532

Source: MOFTEC official statistics – [www.moftec.gov.cn](http://www.moftec.gov.cn) 2001

Official statistics (Table 3.1-7) show a significant decrease in joint venture projects and an increase in wholly foreign-owned enterprises in the 5 years from 1996 to 2000. In 1997, for the first time, the number of wholly foreign-owned enterprises exceeded that of joint ventures.

### 3.2 China-based Joint Ventures – The Model Framework

It has been established in Chapter 2 that international joint ventures in developing countries represent an unstable form of organisation (Franko 1971; Poter 1990; Das and Teng 1999; Yan and Luo 2001). For joint ventures formed in developing or transitional economies, the turbulent political and economic environments, together with the inter-cultural and inter-organisational dynamics, have made these joint ventures even more problematic (Reynolds 1979; Child and Markoczy 1991; Beamish 1993; Peng and Heath 1996).

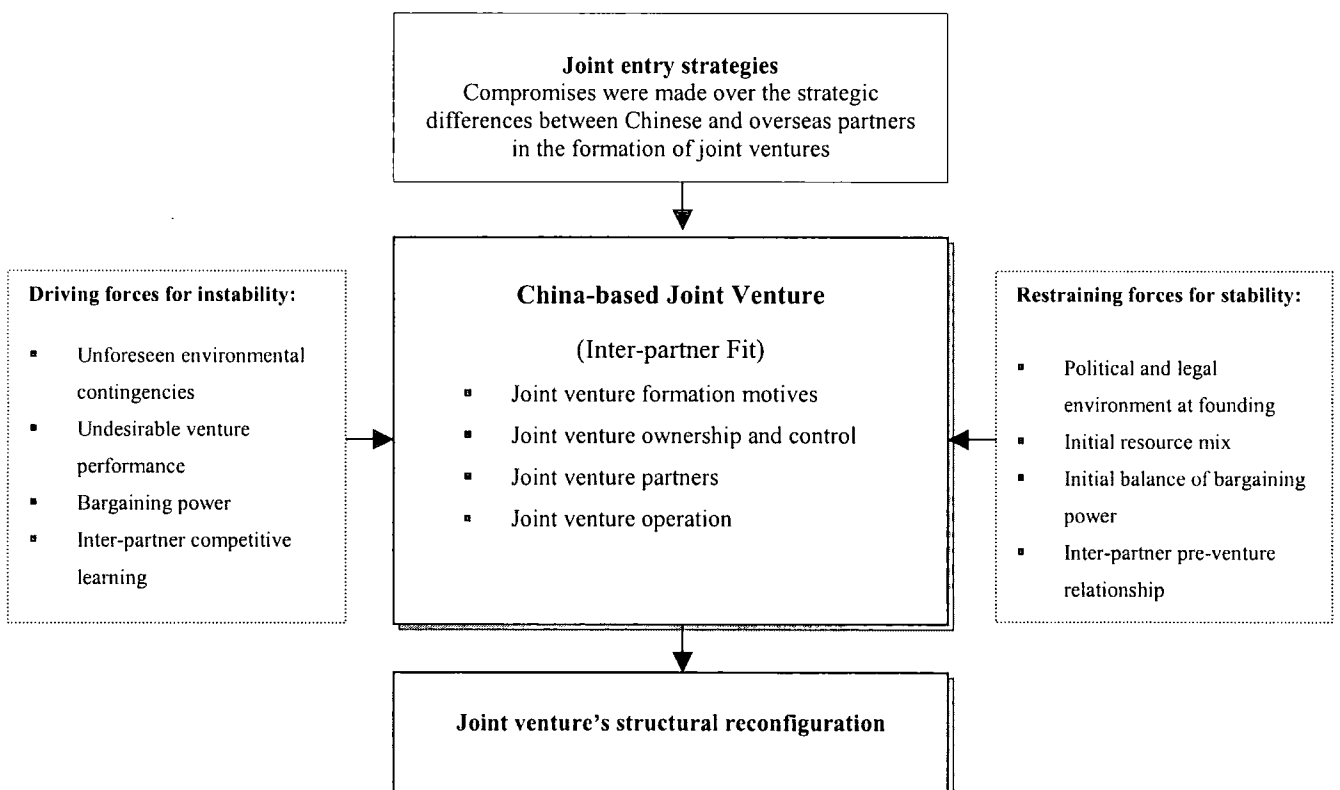
Beamish (1993) reported that China-based joint ventures were different from those in developed and less developed market economies. Based on eleven studies carried out prior to 1989, and his own investigation of 22 joint ventures in China in 1993, Beamish compared 12 characteristics of international equity joint ventures in China with joint ventures in less developed market economies. He found four characteristics unique to China – frequency of association with state-owned partners; ethnically-related origin of overseas partners; use of joint ventures with pre-determined duration; and joint venture stability. However, in the early 1990s the question of how Chinese and overseas joint venture partners may manage their strategies in China's transitional business environment remains unanswered.

Shenkar (1994) reported that previous studies on joint ventures in China can be divided into several groups: descriptive accounts of joint venture activities by origin of investors and industry sector (Beamish and Wang 1989; Ho 1990), small-sample studies dealing with foreign parent's motivations and political risks (Daniels, Krug, and Nigh 1986; Davidson 1987), management problems (Nenley and Nyaw 1987), large-scale studies of mainly strategic issues (Campbell and Adlington 1988; National Council for U.S.-China Trade 1987, 1990; Pomfer 1988, 1991; Shapiro et al. 1991), and journalistic accounts of bilateral or multiple joint venture cases (Goldenberger 1989; Mann 1990). Fan (1996) argued that previous studies of China-based joint ventures share a common topic of

creating or managing international joint ventures in China, although they differed in their purpose of research, research methods, and in particular, analytical focuses.

Yan and Luo (2001) criticised previous research on international joint ventures, claiming that much attention has been paid to the early stages of joint venture development and the eventual destination of ventures, but little has been given to the dynamic development of joint ventures after their inception, and the subsequent process by which the relationship between the partners unfolds. Previous studies of China-based joint ventures are locked into the theories and strategies of the entry and operational stages. As a result, little research has been carried out on how China-based joint ventures evolve over time by shifting their strategies to adapt to internal difficulties and to changes in the Chinese transitional environment, and how those transformed joint ventures manage to sustain their business activities on the Chinese market.

**Figure 3.2-1 The Model Framework for the Research**





This research adapted and modified Yan and Luo's framework of structural reconfiguration in international joint ventures (Figure 2.2-1, Chapter 2) to examine patterns of evolution of China-based joint ventures (Figure 3.2-1).

Based on this model framework, the joint venture inter-partner fit and related variables are reviewed under the categories of joint venture formation motives, joint venture ownership and control, joint venture partners, joint venture operations, and joint venture evolution.

### **3.2.1 Joint Venture Formation Motives**

Previous studies on China-based joint ventures have produced a substantial body of literature on the motives driving foreign and local Chinese businesses to enter a joint venture project (Daniels et al. 1985; Tai 1988; Beamish 1987, 1988, Pearson 1989; Shenkar 1990; Grub and Lin 1991; Aiello 1991; Newman 1992; Glaister and Wang 1993; Gledhill 1994).

During the 1980s, the prime motivations for international firms to invest in China were the prospects of gaining access to what they perceived to be a huge market (Davidson 1987; Campbell 1988; Beamish 1988; Pearson 1989; Shenkar 1990; Luo 1998). Shenkar (1990) reported that for the foreign partners, the desire for profits and the utilisation of outdated technology were of supreme importance, whilst for the Chinese partners, the obtain of technology and foreign exchange were the chief motivating forces. Yan (1993) also indicated that the leading strategic objective of U.S. firms in their joint ventures in China was to earn a profit, whereas the most important motive of Chinese partners was to acquire advanced Western technology.

For foreign companies, the desire for profits from a huge market is a persistent motivation for doing business in China. However, Young et al. (1989), Laughton (1995), Dutta (1988) argued that making profits is not a sufficient motivation for overseas firms to establish joint ventures, since profits could also be achieved by exporting products from home to the host country or by setting up a wholly owned subsidiary. A joint

venture approach is usually selected when the foreign company has no access to alternative modes of foreign direct investment, or exporting, due to the host government's regulations, tariff or non-tariff barriers. In fact, import substitution policies and quota restrictions as well as problems of negotiating with agents and licensees often prevent the establishment of wholly foreign-owned enterprises, or exporting to and licensing in China.

Glaister and Wang (1993) investigated 21 British companies with joint ventures in China, and found that the most important strategic motivation for the British companies was to conform to Chinese government policy rather than to pursue their own ends. This was also discovered by Beamish (1993) in 19 of his 22 samples of Sino-foreign joint ventures in China. In fact, Gledhill (1994) in his study of 121 UK companies with direct investments in China found that it was, in fact, the potential size of the Chinese market that is the primary motivation for investing in China for 92 per cent of respondents. Aiello (1991) reported that establishing a joint venture was the only way that allows American car manufacturer Chrysler access to the huge Chinese market.

According to Beamish (1993) and Teagarden (1990), during the 1980s, a major reason for overseas investors using the joint venture form in China was government pressure. China needs foreign capital, advanced technology, new products and management skills, and in addition needs to create employment opportunities. Pan (1997) showed that the joint venture formation strategies adopted by companies from different nations differ. Examining five variables of joint venture formation (selection of joint venture partners, foreign equity ownership, foreign capital contribution, joint venture business scope and joint venture location), the author revealed that the joint venture strategies of USA, Japanese and Hong Kong partners differ significantly in their characteristics and also over time. Beamish (1993) pointed out that in addition to government pressure to use the joint venture form, there are also solid theoretical reasons that underpin the moves. When multinational enterprises from developed countries are faced with higher adaptation and information requirements than they are accustomed to, particularly in

culturally dissimilar countries, the joint venture form may be indicated. Most foreign investors in China have to confront such requirements.

The findings of Glaister and Wang's research (1993) showed that UK partners viewed the joint venture as crucial to gaining knowledge of the local market and local culture, and subsequently linking with major buyers and distribution channels. These are exactly the kind of inputs that UK firms would find it difficult to obtain when operating alone, and where the local knowledge and contracts of the Chinese partners are paramount. The importance of these largely intangible inputs significantly outweighs the importance of access to more clearly definable inputs such as labour, materials and capital. Moreover, the most important strategic motivation advanced for joint venture formation by overseas investors was their rapid entry to China's domestic market, and the efforts they made were consistent with achieving this.

Compared with other less risky entry options such as contractual processing and assembly, compensation trade, licensing, counter-trade, and export/import activities, the joint venture option can provide the foreign parent with some control over management and production and thus protection of quality and reputation. Pearson (1989) argued that in a positive sense, the legal and policy environment for equity joint ventures throughout the 1980s was better defined compared with that of wholly foreign-owned enterprises in China and hence it was somewhat less risky than other forms of direct investment.

Davidson (1987) revealed that over 90 percent of the U.S. firms interviewed state that the primary market focus of their joint venture was entry to the Chinese market. Chinese partners, however, express a primary interest in foreign export markets. Chinese partners want to 'flood' foreign markets with low-priced products, whereas the US partners have contrary goals. Davidson finds that Chinese state-owned enterprises sought technology, funding, and ways to survive and to keep their staff employed. As soon as the joint venture was formed, the Chinese sought hard currency as quickly as possible. Chinese managers appear to desire a faster pace of technology transfer. The U.S. partners prefer to provide the joint venture with older technology. Fan's study (1996) confirmed this

vital difference and stressed that gaps between the perceptions or expectations and the objectives held by the joint venture partners frequently cause conflicts in managing joint ventures and can even threaten their survival.

Beamish (1993) identified the motivations of Chinese partners in setting up joint ventures as obtaining the overseas partners' technological and managerial skills as well as cash, patents, raw-material sources. Another important factor was that the Chinese were more interested in using a joint venture to export their products to the foreign market (Davidson 1987; Beamish and Wang 1989; Shenkar 1990). Hamill and Pambos (1997) also reported that China's aim in allowing joint ventures was to gain access to advanced technology and to promote exports through the overseas partner's international knowledge and distribution channels. The overseas partners, on the other hand, often view the joint venture as a means of gaining access to lower production costs or of entering and developing China's domestic market.

Motivations on the Chinese side to set up joint ventures can also be found in official Chinese studies, such as Li and Xu (1994), Li (1995), and Yang (1997). Among them, perhaps the most authoritative was by Li Lanqing (1995), China's former first deputy premier. Li (1995) listed China's motivations for setting up joint ventures as follows:

- To Supplement China's Construction Capital

Shortage of capital has long restricted China's economic development. Therefore, setting up Sino-foreign joint ventures may mitigate China's capital shortage. In the past twenty years, inward flows of foreign investment have significantly contributed to China's economic growth (Li and Xu 1994; Li 1995; Yang 1997).

- To Upgrade China's Industry

This would enable advanced technology brought in by overseas partners to fill in the gaps in China's industry. Technology transfer can upgrade many state-owned enterprises and their products.

▫ To Introduce Advanced Management Skills

Overseas partners can bring in modern management skills, including management of production, quality assurance, sales and services, human resources, and finance.

▫ To Increase Financial Revenue and Create Jobs

With a large number of joint ventures established, they can make a significant contribution to government revenue through corporate income tax. Joint ventures can also create jobs for China.

▫ To Promote Development of an Internationalised Economy

As overseas partners have extensive links with the international market, the Chinese party can also benefit from their overseas partners' international connections including marketing networks, loans, facilities, and access to research and development. Increases in the exports of joint ventures can expand China's export volume and so improve China's hard currency revenue. All of these can promote the internationalisation of the Chinese economy.

There are significant differences in the motives for setting up joint ventures between Chinese and overseas partners. In all the six cases of China-based joint ventures with British partners, which he looked at, Yang (1996) also found that despite the fact that Chinese and British partners did have some important consensus in the early stage, which contributed to a joint entry strategy, there exist motivational differences:

Overseas partner

Government incentives/cheap land/labour  
Bank loans from China's domestic banks  
Local marketing and sales networks  
Targeting maximum China domestic market

Chinese partner

Western technologies/management skills  
Maximum utilisation of foreign capital  
Creation of new jobs  
Targeting maximum overseas market

As the Chinese and the overseas partners' strategic objectives for setting up a joint venture are different, even contradictory to some extent, most joint ventures' entry strategies are inevitably the products of compromise (Table 3.2-1).

**Table 3.2 -1 Strategic Differences between Chinese and British Partners**

<b>Objectives</b>	<b>Overseas partners</b>	<b>Chinese partners</b>
<b>Investment motivation</b>	Cash profits	Political, economic and social benefits
<b>Market orientation</b>	China's domestic market orientation	Overseas market orientation with tightly controlled domestic sales
<b>Capital</b>	Expecting bank loans from China	Expecting foreign capital or bank loans from overseas
<b>Equipment</b>	Intent on providing just out-of-date or even second-hand equipment	Expecting latest and brand new equipment
<b>Technology</b>	Single, not advanced, high value	Latest, series, dynamic, low value
<b>Top management</b>	Maximum control	Learning, joint management, maximum control

Source: Yang, 1996

The compromise inherent in joint venture strategies may help potential venture partners reach their deals, but the differences will inevitably stand out during the operational stage.

In summary, there exist significant differences between the Chinese and overseas partners in motivations for setting up joint ventures. The Chinese want to get into overseas markets while foreign investors target China's domestic market. These differences lead to different expectations of the joint venture's operation and long-term strategy, and could ultimately be fatal to its stability. As these differences will cause conflicts and problems in various areas, Killing (1983) and Dutta and Merva (1990) argued that the motivations of the partners need to be balanced, though often they are not.

#### ▪ **Bargaining Power**

Pearson's study (1989) suggested that the extent to which a host government can assert control in relation to foreign firms depends upon its bargaining power and the possibility for increasing it. Standard bargaining power scenarios postulate that each party brings to negotiations a set of attributes or strengths that it can use to influence on outcome. Despite many potential conflicts between partners, there is a range of conditions within which the interests of a host country and a foreign investor may converge to generate an

outcome advantageous to each side. Although the strengths of the negotiating parties are by no means necessarily equal, no party needs entering negotiations unless it can gain. The norms of bargaining also presume that, because both sides must gain, neither can unilaterally control the outcome at the expense of the other.

The prospect that China will open what overseas investors have long believed to be a huge domestic market has made it a highly desirable location for new investment. The Chinese government can use this strength, particularly when bargaining with overseas investors with respect to industries in which there is fierce international competition to enter. Pearson (1989) has an in-depth analysis of China's bargaining power in the late 1970s and the 1980s and points out that although China brings to the bargaining process weaknesses as well as strengths, on the whole, its market potential is immense. The combination of three features – the relatively centralised control of the economy, the absence of a national bourgeoisie, and the huge potential market, means that China is better situated to control the terms of foreign investment than any other developing country, which wishes to attract foreign investment. China's potential weaknesses are also evident but these often parallel the strengths of foreign firms, which offer foreign capital, advanced technology, international marketing networks, and management skills.

During the 1980s and the early 1990s, because of the repetitive importation of the same technology, the same production line, or the same products, fierce domestic competition took place between state-owned enterprises. Most state-owned enterprises turned to the joint venture solution for survival. This provided potential overseas investors with plenty of choices for selecting their Chinese partners. For example, nearly all the world's big car manufacturers have engaged in negotiations with every Chinese car manufacturer. Most Chinese state-owned enterprises are well positioned for selection, but have no strength at all in bargaining for 51 per cent stakes (Pearson 1989). Most Chinese enterprises attach great importance to control over technology rather than over equity, and this is especially the case with those needing technology or new products. With control over technology or products, Chinese partners can speed up the process of self-

strengthening. But this has further enhanced bargaining power of foreign investors as a result.

### **3.2.2 Joint Venture Ownership and Control**

#### **(1) Joint Venture Ownership Structure**

The distribution of equity in a joint venture is determined by each partner's individual contributions of assets and attributes, including: financial resources, machinery, patents, trademarks, technology, management know-how, and distribution networks. It is also determined by the legislation of the host nation. Hence, the percentage of the equity held often reflects the percentage of control over a joint venture. In most joint ventures outside China, control over decision-making is directly tied to the division of ownership between partners – the partner with majority ownership has the majority of votes on the board of directors. Host governments in both planned and market economies commonly restrict the percentage equity held by foreigners to 49 percent or less, as a means of retaining control over jointly owned companies (Pearson 1989).

China's policy on joint ventures breaks with this tendency. According to Article 4 of China's Joint Venture Law, "In the registered capital of a joint venture, the proportion of the investment contributed by the foreign participant shall in general be not less than 25 percent". The Joint Venture Law does not specify a maximum limit on foreign ownership, thereby offering the possibility of 99 percent foreign ownership of a joint venture. The precise division of equity is to be left to negotiation.

However, in practice, as Pearson (1989) indicates, Chinese officials are clear in their preference for Chinese majority or fifty-fifty ownership, for the 'comfort of control' over management. Reflecting this preference, Chinese majority or equal ownership was far more common than foreign majority ownership for joint ventures formed before 1985. Most overseas investors did not oppose minority or 50 percent ownership, and in some cases even preferred it. The lack of opposition from overseas partners was due, in part, to the fact that their major incentive was to explore the Chinese market and maintain a



defensive position against international competition. Beamish and Wang (1989) also found that foreign firms had a minority equity position in most of the 805 equity joint ventures formed in China before 1986. Similar results were reported by Engholm (1989), Boisot and Child (1990).

Yan and Luo (2001) argued that institutional pressure for joint ventures, or for a particular type of joint venture, were imposed not in the form of formal laws or government regulations but of strong social, cultural, or industrial norms. For example, the significant rise of 50-50 shared joint ventures made Western researchers and practitioners speculate that it was Chinese law that required the equal split of equity ownership. In fact, all versions of Chinese joint venture law states that the foreign partner's equity holdings should be 'at least 25 percent' while no ceilings were stipulated. In effect, joint ventures with majority foreign ownership have been legally allowed since the very outset of the policy.

However, in practice, as Hamill and Pambos (1997) point out, China's policy towards foreign direct investment remains complex and difficult to interpret. There is often confusion between what is allowed legally and what can be done unofficially, and between state-level policy and the interpretation of that policy by regional and local officials. In the different areas, which are opening up, local government departments have their own detailed regulations on joint venture ownership, which could well be different from those of the national joint venture law. For example, in certain industries in China, overseas companies' maximum stake has been limited to a minority holding of 49 per cent. In some sectors, such as defence industry, there was no foreign entry (Li and Xu 1994).

The official requirements for the ownership of joint ventures in Dalian (Table 3.2-2) were not in line with Chinese joint venture law. But these locally adjusted regulations have been dominating the formation of joint ventures in Dalian during the period under

examination. According to a senior Dalian official<sup>1</sup>, such local ownership regulations resulted from the Dalian government's 'interpretation' of the national joint venture law, which was based on its own economic situations.

**Table 3.2-2 Official Ownership Proportion for Setting up Joint Ventures (Dalian)**

Period	Chinese Partner	Overseas Partner
1980 – 1984	At least 51%	49% max.
1985 – 1991	At least 25%	75% max.
1992 – 1998	At least 5%	95% max.

Source: Joint Venture Supplementary Regulations for Ownership Proportion, Dalian (1998)

The implication of the evolving ownership requirements is that most of Dalian's large and medium-sized state-owned enterprises have difficulties in finding finance for forming joint ventures. Potential overseas investors are not always impressed by the Chinese partner's old factory buildings, out-of-date equipment, low productivity, and staff. That was a major reason why Chinese government at all levels has encouraged wholly foreign-owned enterprises rather than joint ventures<sup>2</sup>.

Chen (1998) also revealed that Chinese state-owned enterprises have encountered several difficulties in controlling majority equity within joint ventures in the 1990s. Many state-owned enterprises had serious difficulties in actual operation. They needed overseas capital, up-to-date technology and products in order to consolidate their business positions. China's state-owned enterprises thus were not in a good bargaining position for controlling majority equity within joint ventures. As a result, controlling majority equity was not a major concern to most state-owned enterprises in joint venture negotiations. In contrast, most overseas investors, especially those who had contributed capital and

<sup>1</sup> Jin Richen, Deputy Director of the Foreign Trade and Economic Cooperation Committee of the Dalian Municipal Government (interview, 1998).

<sup>2</sup> Cheng Shaofang, Deputy Secretary-General of Dalian Association of Enterprises with Foreign Investment (Interview, 1998).

equipment, attached great importance to majority equity in order to maintain their decision-making power.

Since 1993, the Chinese government has encouraged state-owned enterprises to contribute their entire rather than a part of the fixed assets to form joint ventures with overseas investors<sup>3</sup>. This also supports Beamish's (1993) study, which pointed out that the perceived foreign ownership ceiling has recently been lifted in China and predicted that the number of majority foreign owned joint ventures would increase, with a corresponding increase in the amount of dominant foreign control.

Pan's study (1997) confirmed that it was not only possible for overseas firms to take larger equity shares but the Chinese government started to encourage the development of wholly foreign-owned enterprises. Pan (1997) showed through his sample that over time, the Japanese and U.S. investors have shifted gradually from a 50-50 per cent to a majority equity position, especially between 1991 and 1993, whereas U.S. contributions were generally less than 50 percent equity in the period 1988 to 1990. Osland and Cavusgil (1996) revealed that large U.S. multinationals have used relatively small-capitalised joint ventures as a means to enter the Chinese market and when these joint ventures have become profitable, the U.S. parents have attempted to acquire a larger share of the operation.

## **(2) Joint Venture Control**

Control is particularly important in joint ventures in the uncertain context of developing countries (Child and Yan 1999). The share of ownership of the joint venture is perceived to be a mechanism of control (Osland and Cavusgil 1996). But Child (1984) pointed to the fact that within an international joint venture there are two kinds of control that investors might hope to attain: strategic control and operational control. Strategic control is the control over the means and methods on which the whole conduct of a joint venture depends, including the deployment of capital, the determination of strategic priorities and the making of senior appointments. Operational control is the control over the production

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<sup>3</sup> Cui Xiaodong, Dalian Foreign Affairs Office (Interview, 1998)

process within a joint venture, in the sense of determining how the employees perform their work. It focuses on production and related activities such as purchasing, sales and distribution, and quality. Kim (1996) argued that external variables seem to be more important than internal ones in affecting joint ventures' operations. The partner who controls the external variables appears to have more influence on the direction of joint venture development. In most cases, overseas partners have controlled external variables and the internal variables are mostly controlled by Chinese partners, except production and operation.

Shenkar (1990), Teagarden (1990) and Beamish (1993) indicated that it was effective to divide up control along functional lines. To have one partner making nearly all the decisions increases the probability of poor performance in China. The local economy, politics, and culture in China are so far removed from the experience of most Western firms that dominant overseas control is extremely risky. Similarly, the lack of technology and management skills of the Chinese could make dominant control by them equally risky. The fact that in 17 out of 22 joint ventures in Beamish's (1993) study there was split control, suggesting that this was the most common control system.

Dong et al. (1993) investigated the control over decision areas by individuals of different nationalities. Their study made the distinction between Western and overseas Chinese investors. They found that in both groups, foreign partners had much more control over such areas as product planning and quality control, and a little more over marketing. On the other side, local partners had more control over production planning, wages, recruitment, and labour policy. They also found that on dividend policy, organisation, purchasing, budgeting and accounting, as well as exports and imports, control was roughly equally shared between the partners. Compared with Western partners, overseas Chinese were found to have more control over pricing policy, quality control, and export and import and their local partners have more control over matters such as wage and labour policy and organisational issues. However, disagreement often existed in decisions over pricing policy, accounting, and marketing.

Killing (1983) presented various examples where foreign firms could control joint ventures even when in a minority equity position. Beamish (1993) suggested that in China, overseas firms are typically able to exercise somewhat greater control than their equity levels would suggest. However, all previous studies failed to identify whether this is due to the nature of the overseas partners' contribution, or to a more sophisticated knowledge of the control mechanisms available.

### **3.2.3 Joint Venture Partners**

Selecting the right partner has been considered very important in the China-based joint venture context (Campbell 1989; Glaister and Wang 1993; Shaw and Meier 1993; Gledhill 1994). The local partner has been required to be resourceful and well connected (Shenkar 1990; Kim 1996). In developed countries, a successful joint venture requires partners to have compatible and comparable capabilities and experience; for example, the partners should complement one another in management capacity and experience. It was difficult, if not impossible, however, in East Asian countries to find a local firm that has comparable management capacity and experience to a Western firm (Kim 1996).

Foreign investors perceive that good Chinese partners can assist in setting up day-to-day operations: for example, in securing plant space, personnel, sources of raw materials, and ready-made sales and distribution channels. Others desire access to project opportunities, markets, flexible rulings on the use of foreign exchange or state funds, and sometimes even fiscal concessions (Shaw and Meier 1993). But the most important characteristic in a Chinese partner is the ability to negotiate with the host government. It is perceived that all the large state-owned enterprises have a stronger ability than private companies to negotiate with relevant government departments.

Casson and Zhang (1992) argued that the necessary characteristics and skills required of Chinese partners relate to important inputs which the overseas partners expect from them: the ability to negotiate with the Chinese government; involvement in related business; trust between top management teams; established marketing and distribution systems; reputation; experience in technology applications. Hence, the necessity to find partners

who are involved in a related business is shown as the second most important characteristic. A strong argument is advanced in the theoretical literature on joint ventures that the fundamental basis of the relationship does rest on trust between the management teams.

Beamish (1993) revealed that owing to government pressure, joint ventures in China are frequently created with state-owned partners. None of the 22 joint ventures in Beamish's (1993) study were with private Chinese partners. Glaister and Wang's study (1993) showed that consistent with the Chinese business system, most Chinese partners of joint ventures are linked with the relevant government departments that put as their priority the reform of state-owned enterprises by means of introducing Western technology. This can explain why most Chinese partners were state-owned enterprises in the 1980s and the first half of the 1990s.

Overseas investors have hoped that their local partners can add value to their joint ventures in a variety of ways. In practice, however, the value added by local operating partners is usually quite low to begin with, and steadily declines over time. Chinese partners, in general, are much less interested in winning market shares and breaking through entry barriers than in gaining access to technology, know-how, new jobs, foreign markets and foreign exchange (Shaw and Meier 1993).

Hamill and Pambos (1997) discovered that with different strategic motivations for setting up joint ventures, each partner seemed to be trying to gain advantage over the other during the operational stage, rather than working together for their mutual benefit. Some Chinese partners, moreover, had used the technologies and management skills transferred to improve their own competitive positions in their other core businesses rather than for the benefit of the joint ventures. The Western partners had received very little in return and, more seriously, had created strong local competitors for themselves in the host country.

In contrast, Child and Tse (2001) argued that as China's economic reform proceeds, and drawing from two decades of experience of operating in China, overseas investors have gradually learned how to operate in China context. As a result, their resource dependency on Chinese authorities or Chinese partners can be expected to decrease. Similarly, as Chinese firms improve their technology, knowledge and other capabilities, they are becoming less dependent on foreign partner, and the competitive advantage that foreign firms have enjoyed in technology and management expertise is likely to decrease.

The limitations of the previous literature on partner issues in China-based joint ventures are firstly that it has paid too much attention to state-owned Chinese partners while ignoring private partners. There is no research that has studied the attitudes of private Chinese partners and compared them with state ones. With the rapid increase of involvements in joint ventures by the private sector, research into private Chinese partners is crucial. Secondly, in-depth studies on the changes in inter-partner dependency and its evolution are absent in the existing literature.

#### **3.2.4 Joint Venture Operation**

Making a deal and making it work are the last two stages of the strategic framework for foreign market entry. Making the deal involves partner selection, negotiations, financing the project, and in many cases the transfer of technology. Making the deal work involves management, factory construction, materials and components sourcing, labour and personnel issues and marketing (Campbell 1988). The key to success for the foreign company lies in a joint operation and management shared between the joint venture partners.

Managing a joint venture in China is different from managing it in a developed country (Zamet and Bovarnick 1986) or in a less developed country (Fan 1996). Hofstede (1991) has argued that contrasting cultural characteristics of nations give rise to distinctive patterns of managerial behaviour. The hazards of joint venture management are particularly intense in China-based joint ventures, due to huge differences in managerial systems and philosophies (Davidson 1987).

It has been established earlier that Chinese and overseas joint venture partners have different motives for setting up joint ventures. In establishing a joint venture, each party hopes to achieve its strategic objectives maximally – a win/win solution. Thus, when creating a joint entry strategy, those motivational differences are temporarily put aside by the Chinese and overseas partners in order to make the entry deal work. Nevertheless, although the joint venture deal is made with significant compromises, the different expectations of the joint operation still remain and cause constant conflict between joint venture partners.

▪ **The Parent Companies of Chinese Partners and Chinese Managers**

Chinese parent companies will exert continuous influence on the day-to-day operation of joint ventures as long as some of the staff and workers of the joint venture are recruited from these Chinese parent companies. Osland (1990), Shenkar (1990) and Beamish (1993) indicated that a Chinese parent company can, whenever it suits the interests of the parent company, dispatch and recall its workers to and from the joint venture, as if the joint venture is merely a branch office of the parent company. A foreign manager still lacks the means to defend himself against such abuse unless he is able to replace the personnel manager, who is more often than not simply an extended arm of the Chinese parent company.

Davidson (1987) noted that the influences of culture, central planning, and the political solutions to all problems have created four distinct characteristics in the typical Chinese manager. First of all, the manager does not concern himself with the relationship between costs and revenues. Second, he or she is very cautious. Changes, in any form, are extremely difficult to implement. The consequences of failure or of making mistakes far outweigh any potential rewards from innovation. Indeed, innovation and progressiveness have not been desired qualities in the Chinese managerial system. Third, there is a lack of interdepartmental communication in Chinese enterprises. The fear of making mistakes and the distrust created by the Cultural Revolution have created a situation where departments have become separate spokes of a wheel, which



communicate only through the head office. Fourth, the relationship between workers and managers is poor.

#### ▪ **Overstaffing Problem**

The Joint Venture Labour Recruitment Procedures requires joint ventures to recruit their staff and workers from the pool of workers belonging to the Chinese parent company, provided that they are available and competent (Shenkar 1990). However, many joint ventures have encountered the problem of excess workers (Ruggles 1983; National Council for U.S./China Trade 1987). The problem may be particularly severe in those joint ventures that have taken over operating plants from the Chinese parent. In many cases, when skilled workers are available, the Chinese parent is often reluctant to transfer them to the joint venture, and would prefer instead to transfer superfluous and less qualified personnel (Shenkar 1990; Beamish 1993).

Cardio-Pace, the U.S. parent of a joint venture in Baoji City, found that the Chinese parent company wanted to staff the joint venture with a few dozen of its excess assistant managers and workers (*Times*, 2<sup>nd</sup> June 1986). Although similar problems have also been found in joint ventures in other countries, it may be more serious in China where many enterprises and state enterprises have been over-staffed for years (Shenkar 1990; Beamish 1993; Li and Xu 1994).

Therefore, the preferred option is to build a new organisation for the joint venture rather than taking over existing facilities from the host parent company. The reason is that it is much more difficult to change institutionalised work norms than to instil new ones into younger employees who are still amenable to such socialisation (Shenkar 1990).

#### ▪ **Export Requirements and Domestic Market Restrictions**

China's joint venture law itself does not make it clear that joint venture products must be exported. However, according to Article 61 of the 'Regulation on the Implementation of the Joint Venture Law' (1983), "the products of joint ventures which China urgently needs or imports may be sold mainly to the Chinese market". However, whether a joint

venture product is urgently needed or not will be defined by the central or the local governments.

Joint ventures are free to import and export as they wish. However, in order to do so, import and export licenses are required and these are difficult to obtain unless the company has predicted the need to do so months in advance, having built this into its plan for that period and had the process approved (Hamill and Pambos 1997).

From 1980 to 1995, the general practice in most of the opening cities was to fix the percentage of a joint venture's domestic sales according to the Chinese party's registered capital shares. The remaining products would have to be exported (see Grub and Lin 1991). Chinese government researchers Li and Xu (1995) reported that in the case of processing joint venture projects, 70 percent of their products must be exported and the average export share in their sample of 50 joint ventures were more than 60 percent.

The huge Chinese market has been regarded as being the most appealing factor for overseas investors. The problem is that the Chinese government generally keeps the domestic market away from foreign investors, partly to protect domestic industries and partly to force joint ventures to sell their products abroad, thus earning foreign exchange. Limited access to the domestic market was the key barrier to the establishment of wholly foreign-owned enterprises in the late 1980s. To establish a joint venture then was the only way to gain access to the Chinese domestic market. Accepting exports from China was the price overseas investors had to pay for gaining access to the Chinese domestic market (Daniels et al. 1985).

Pearson (1989) revealed that the Chinese government had set up a number of controls to discourage domestic sales by joint ventures. The government was able to use the state plan to press for exports. By including joint ventures in these state marketing plans, the government was able to direct how and where joint ventures should make sales. It could also use its pricing authority to impose much higher prices for joint venture products than

for the comparable local product, making domestic sales difficult. And in theory the government could also use its Chinese managers within joint ventures to direct sales.

Only in 1995 did the Chinese government relax the restrictions on the domestic sales and on wholly foreign-owned enterprises whose products initially had to be exported in full <sup>4</sup>. Li and Xu (1995) pointed out that the opening up of the domestic market is a difficult problem linked with the protection of national industry. However, with China's accession to the WTO, the Chinese government is no longer allowed to force joint ventures to sell to international markets.

#### ▪ **Joint Venture Performance**

Empirical evidence from previous studies suggests that international joint ventures in general perform poorly. Estimated failure rates from 30 to 60 percent, with the incidence of failure being highest in the joint ventures in developing countries. One could expect the failure rate of joint ventures in China to be just as high, or even higher given the complex economic, political, market, legal and cultural difficulties involved in doing business in China (Hamill and Pambos 1997).

According to McKinsey Research Worldwide, about 80 percent of international joint ventures around the world collapsed within first decades after their establishment. China does not seem to have bucked this trend (China-Britain Trade Review, February 2000). With different motives of Chinese and overseas venture partners, it is problematic to define a joint venture's success or failure. Each side has its own judgement. One party's success might be the other party's loss. In general, running a joint operation in China is difficult and foreign companies do leave in frustration (Teagarden and Von Glinow 1991; Beamish 1993; Yan and Gray 1994; Osland and Cavusgil 1996).

Beamish (1993) suggested that the longer a joint venture has been in operation, the greater will be the amount of reorganisation/liquidation, as performance problems arise.

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<sup>4</sup> Jin Richen, Deputy Director of the Foreign Trade and Economic Cooperation Committee of the Dalian Government (Interview, 1998).

Beamish's (1993) research showed that performance problems accelerated over time. Most foreign partners have indicated their dissatisfaction with joint venture performance and this is unlikely to change.

Pei (1999) and Wong (1999) also identified a high failure rate for China-based joint ventures. Similarly, according to the China Economy Blue Book (2000, P.256), by the end of 1999, of 325,000 approved foreign invested projects, there were only 145,000 projects left; 180,000 projects had disappeared. The failure rate was 55 percent.

In contrast, Davidson (1987) found that more than two-thirds of 47 Sino-U.S. joint ventures achieved or exceeded performance expectations. Campbell (1989) found that 10 of 13 Sino-U.S. joint ventures claimed to have good or very good profitability. Eiteman (1990) found that 10 out of 17 Sino-U.S. joint ventures were an economic success. Pearson (1991) reported that most of the managers interviewed were positive about their joint venture performance. Stelzer et al. (1992) indicated that nearly two-third of the Sino-U.S. joint venture met or exceeded performance expectations. Dong et al. (1993) reported that foreign partners were satisfied with their joint venture performance. Ding (1993) gave evidence that 53 percent of the Sino-U.S. joint ventures expressed a high level of satisfaction with financial performance. Osland and Cavusgil's (1996) demonstrated that 43 managers and government officials were satisfied with the performance of eight Sino-U.S. joint ventures. Each joint venture in the sample was profitable and in seven of the eight cases, profit levels exceeded both partners' expectations. However, Osland and Cavusgil (1996) discovered some instability in their sample of Sino-U.S. joint ventures.

### **3.2.5 Instability of China-Based Joint Ventures**

Davidson (1987) noted that although a joint venture appears to offer greater revenues, lower costs, and less risk than the commitment of a wholly owned subsidiary, it was still the most difficult option. Vanhonacker (1997) argued that China is vast and varied, with a culture and traditions profoundly different from those of the West, and its social,

governmental, and economic systems are particularly complex. Those obstacles alone would make a joint venture difficult. After all, joint ventures are notoriously hard to sustain even in the relatively stable environments of the United States and Europe.

Joint venture stability depends greatly upon qualitative variables such as external environment, individual personalities, organisational cultures, administrative styles, and management philosophies. Causes for the instability of China-based joint venture management were many. For example, changes in government policy, issues of staffing, operating procedures, price transfer, sourcing of raw materials, technology selection, dividend policies, product lines, pricing, costing and investment allocation, market priorities, management control, and many other factors, all could be obstacles to the stability of a joint venture.

The causes have been extensively covered in the literature (Killing 1982; Harrigan 1984; Harrigan 1985; Kogut 1988; Pearson 1989; Fan 1996). Mamill and Pambos (1997) suggested that the problems arising from different partner objectives and cultural conflicts are likely to be particularly acute in China-based joint ventures. They argued that the most important factor affecting the stability of a China-based joint venture is whether there is mutual adaptation between the overseas partner and the Chinese partner/the Chinese Government.

Fan (1996) argued that gaps between the perceptions, expectations and objectives held by the joint venture partners frequently cause conflicts, and the cultural differences in organisation, structure and management style complicate the inter-partner relationship in managing the joint venture and exacerbate its instability. However, although Fan (1996) indicated mutual adaptation between joint venture partners as the most important factor for joint venture success, he nevertheless fails to address the impact of changes in the Chinese business environment on inter-partner adaptation and joint venture evolution.

Several official Chinese studies (Li 1995; Li and Xu 1995; Yang 1997) on joint venture instability also revealed some key factors responsible for instability of China-based joint

ventures. In contrast to international studies, those official researchers believe that instability factors are mainly the following reasons:

- The unbalanced structure of foreign direct investment
- Importation of out-of-date technology
- Operational losses and transfer pricing
- Fraudulent application for tax relief based on false high export prices
- 'Shell' joint ventures and abuse of state funds
- Misunderstandings caused by cultural differences
- Lack of understanding of managerial styles between Chinese and overseas partners
- Violation of laws or contracts causing losses to Chinese partners as well as a reduction in national assets

Some researchers (Child 1994; Fan 1996; Kim 1996; Hamill and Pambos 1997; Vanhonacker 1997; Weir 1997; Bulcke et al.1999; Weldon and Vanhonacker 1999; Selmer 1999; Wong et al 1999) pointed out that China's economic environment is a continually changing influence on the stability of China-based joint ventures, so a continual readjustment of strategy does make a great deal of sense for a joint venture. However, there are other variables, such as the ability of mutual adaptation between the Chinese and the overseas partners, strategic differences that could also affect the stability of China-based joint ventures.

Beamish (1993) concluded that joint ventures in China are likely to be less stable the longer they are in business. The longer a joint venture has been in operation, the greater will be the number of reorganisations/liquidations, as performance problems arise. However, with the relaxing of government pressures on setting up joint ventures, some overseas investors might consider converting their minority equity venture to a majority or wholly owned business.

### **3.3 China's Business Environment in the 1990s**

Like many emerging markets, China represents tremendous opportunities for growth and expansion as well as potential risks. As China's economic reforms unfold, China continues to present new challenges for foreign firms. In the 1980s, China was characterised by political instability, enormous uncertainty in market demand, sudden policy changes, lack of foreign currency, and government control (Cui 1998). In contrast, over the 1990s, in line with its economic boom, China has also enjoyed political stability.

During this decade, there were dramatic changes in China's business environment. First of all, further reform of the large and medium-sized state-owned enterprises led to thousands of workers being laid-off, forcing the Chinese government to make job creation, rather than restrictions on foreign investment, its priority. Second, China's policy towards overseas investment became more favourable since the government removed the ban on investment in several sectors for wholly foreign-owned enterprises, such as banks, insurance companies, and wholesale businesses. Third, the further opening up of China's hinterland provided more choice for the location of international investment. Fourth, with encouragement from the government, the private sector became actively involved in joint venture projects. These changes have enhanced the bargaining power of overseas investors and put them in a more favourable position to adjust or reformulate their strategies in China.

#### **3.3.1 Economic Reforms**

China started its economic reform in 1979. As it has progressed, massive institutional changes have gradually dismantled many barriers to international business operations (Child and Tse 2001). However, institutional changes in China are highly complex, because in this formerly closed, state-dominated system, institutions have developed into massive inter-dependent, multi-level networks whose logic of operation depends as much on political influence and personal relationships as on concerns for efficiency (Nee 1992, Nolan 1995). It has also been consciously experimental with the result that multiple systems of business ownership and governance have emerged (Boisot and Child 1996).

Child and Tse (2001) identified several positive impacts of China's reforms on international business: (1) the shift from plan to market has increased China's attractiveness as an environment for international business as the relaxation of institutional constraints upon firms permitted both local and foreign firms to pursue their preferred business strategies with fewer restrictions than before. (2) China's increased exposure to the international market has allowed overseas investors more flexibility in their choice of entry and operating modes. For overseas investors, whether to form joint ventures and how do they choose their Chinese partners are determined less by the Chinese partner's ability to work with the government, and more by venture partners' mutual complement. (3) The growing spread of ownership and governance forms in China has led to a greater variety of types of cooperation between Chinese and overseas firms. (4) Policies on China's business support systems are now increasingly tailored to the needs of its privately owned and foreign-invested firms.

#### ▪ **Reform of State-Owned Enterprises**

Since 1984, China has implemented several policies in order to reform the industrial sector, aiming to improve the productivity of state-owned enterprises. The reform has produced some positive results, but the scale of improvement has not been sufficient to allow state-owned enterprises to compete with the non-state sector and their losses continue to increase. In 1992, Chinese officials at all levels signalled their intention of leading the country towards a socialist market economy, opening the economy wider to the rest of the world with an ambitious programme of economic reforms. These moves have allowed China to build an economy that is second only to the U.S. economy in size. A gradual, rather than a 'big bang' strategy has enabled China to develop and expand a pro-reform constituency, which have helped push forward the reform momentum (Liew 1999).

However, the success of the reforms is threatening the existence of many state-owned enterprises and efforts to keep these enterprises afloat are undermining the financial system because many of the loans made by state-owned banks are to enterprises that are loss-makers. In 1996 and 1997, 46 percent of state-owned industrial enterprises were 'in



the red' and the annual losses were 79.1 billion RMB (Lin 1998). The Chinese government was aware that the country needed to change course. Hence, they started cutting back bank loans to favoured projects. The austerity drive left many state-owned companies starve for funds and forced to lay off workers. The easy days of export-led growth were ending and the task of building a domestic economy lay ahead (*Business Week, March 16, 1998*).

At the Fifth Plenum of the Fourteenth Party Congress held in September 1995, the Chinese leadership launched the policy of 'Grasp the large enterprises and let go the small ones'. The stated aim was to 'support the excellent and the strong state-owned enterprises' (Xie 1998).

However, the employment effects of this 1995 decision soon emerged. In 1997, RMB 30 million was set aside by the government to facilitate approved cases of enterprise bankruptcy following a RMB 20 million injection in 1996. A further RMB 30 million was injected for this purpose in 1998 (Lardy 1998). In 1996, 420,000 workers were either dismissed or moved elsewhere in five cities in Liaoning Province (Chan 1998) and in the first month of 1997, 35,000 employees in state-owned enterprises in Guangzhou were made redundant (Ngai 1997). Layoffs of state enterprise employees were occurring elsewhere in China too, and became common after 1995. In 1997, the Chinese Labour Minister Li Boyong announced that 6 million urban workers in state enterprises would be laid off from state enterprises by the end of that year. The Ministry followed this up with an announcement in February 1998 that 8 to 10 million workers in state enterprises would be made redundant over the next three years (Chan 1998). According to *China Report* (1<sup>st</sup> December 1999) the number of urban unemployed was about 12 million in 1998. This number did not include the 3 – 4 million workers who were being laid off each year from failing state-owned enterprises. The worsening unemployment situation is increasing the pressure on all levels of local government to create jobs. Naturally, the government regards foreign invested enterprises as a major source of job creation.

#### ▫ **Difficulty of Obtaining Bank Loans**

Unemployment and the threat of unemployment are causing workers to increase their savings and decrease spending. This in turn leads to deflation, which causes households to postpone consumption and increase savings further. However, with the reform of state-owned enterprises, banks are now held responsible for the quality of their loans, and therefore are reluctant to lend (Liew 1999). The pressure is so serious that some bankers are reported to be pleading illness and staying at home to avoid the risk of making a bad loan (Sender 1998). This situation also affects the availability of loans to China-based joint ventures. More and more potential and existing Chinese joint venture partners are finding themselves unable to secure the bank loans needed for forming their joint ventures or for expanding their businesses.

#### ▫ **Impact of the Asian Financial Crisis**

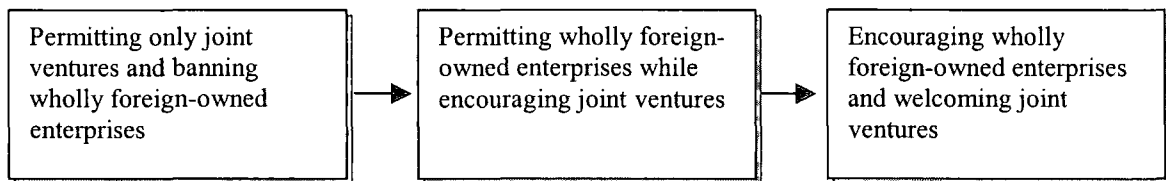
The Asian financial crisis has had a serious impact on China's economy, causing China's exports to slow down and overseas investment to drop in 1998. It has also adversely affected Chinese enterprises, particularly those dependent on exports to East Asia. Competition from South Korean companies, for example, has hit the shipbuilding industry in China. It is estimated that the depreciation of the *won* has diverted a billion USD worth of shipbuilding business from China to South Korea. The cashmere and computer industry has also been hit by the crisis (Liew 1999).

Vanhonacker (1997) and Wong et al. (1999) also noted that the Asian financial crisis put the Chinese economy under stress. Foreign investment inflows slowed down because cash-starved Asian companies could no longer afford to invest in China. Exporters saw business shifting to cheaper factories in Thailand and Malaysia. The real estate boom in the rich coastal areas came to a halt. Unemployment rose and bad loans kept piling up in the state banks, threatening the health of the entire economy. As a result, the Chinese government turned to stress the importance of developing stock-holding economies and using overseas capital (Liew 1999).

### 3.3.2 Changes in State Policy towards Foreign Direct Investment

Throughout the 1980s and 1990s, the Chinese government's policy towards foreign direct investment has been evolving, from only allowing joint ventures to permitting wholly foreign-owned subsidiaries, and then to actively encouraging wholly foreign-owned enterprises. This tendency was accelerated by China's domestic economic difficulties, and by the Asian financial crisis in 1997. The evolution of the policy is summarised below (Figure 3.3-1). All these changes have made a strong impact on the development of foreign invested projects, especially on the long-term strategies of joint ventures (Li and Xu 1994; Li 1995; Yang 1997).

**Figure 3.3-1 Evolution of Government Policy towards Foreign Direct Investment**



Wholly foreign-owned enterprises represent a firm commitment to foreign markets and offer the foreign investors increased flexibility and control. Within the constraints of the Chinese system, wholly foreign-owned enterprises allow managers to expand business quickly without the burden of an uncooperative partner. This mode also requires foreign companies to set up, manage, and protect their own processes and procedures, which leads to more careful strategic, operational and cost oversight (Vanhonacker 1997). Before the adoption of the law of wholly foreign-owned enterprises in 1986, the State Council had approved some wholly foreign-owned enterprises, but these were all located in the four Special Economic Zones. Even after the law was adopted, the establishment of wholly foreign-owned ventures was under the direct control of the central government.

China started to relax its control over wholly foreign-owned enterprises in 1987. Since then, the number of wholly foreign-owned enterprises has steadily increased each year.

Vanhonacker (1997) argued that although joint ventures can still be seen in some sectors, setting up wholly foreign-owned enterprises is a growing trend. Joint ventures and wholly foreign-owned enterprises are substantially similar in terms of taxation and corporate liability. They also operate under same foreign-exchange rules import and export regulations for licensing, quotas, and duties. Their only real difference is that a wholly foreign-owned venture takes less time to establish than a joint venture and is not required to have a board of directors

Table 3.3-1 highlights the similarities and differences between a joint venture and a wholly foreign-owned venture.

**Table 3.3-1 Comparison of Joint Ventures and Wholly Foreign-Owned Enterprises**

Items	Joint venture	Wholly foreign-owned enterprise
<b>Relevant laws passed</b>	8 <sup>th</sup> July 1979	20 <sup>th</sup> April 1986
<b>Documents required</b>	Agreement, contract, and business plan	Agreement and business plan
<b>Business status</b>	Joint ownership	Sole ownership
<b>Legal person status</b>	Chinese independent legal person	Chinese independent legal person
<b>Highest authority</b>	Board of directors	Parent company
<b>Management mode</b>	Joint management	Sole management
<b>Investment</b>	Cash, technologies, land, factory...	Fixed assets or cash
<b>Market orientation</b>	Overseas and domestic markets	Overseas market (before 1995) Overseas and domestic markets (after 1995)
<b>Profit distribution</b>	According to proportion of each party's ownership share	Wholly owned by the foreign investor
<b>Closedown clearance</b>	After clearance of debt, the rest of property and capital will be distributed according to ownership shares	After clearance of debt, the rest of property and capital are wholly owned by the foreign investor
<b>Taxation</b>	33%*	33%**
<b>Duration limitation</b>	5 years to 50 years or longer	5 years to 50 years or longer

\* 30% tax goes to the central government and 3% tax goes to the local government

\*\* Before 1<sup>st</sup> July 1991, the overall tax for foreign invested enterprises was 50% (40% to the central government and 10% to the local government).

Sources: The Chinese Joint Venture Law (1979) and Wholly Foreign-owned Enterprise Law (1986) and MOFTEC official website: [www.moftec.gov.cn](http://www.moftec.gov.cn), 2001.

Some foreign investors mistakenly believe that wholly owned enterprises have higher export quotas than joint ventures. In reality, wholly owned enterprises probably do export more of their products. That is, however, not a result of Chinese regulations but an outcome of negotiations for the approval of the enterprise. Unless the venture brings something China wants, the Chinese authorities will demand an export quota of at least 50 per cent from wholly owned enterprises as a kind of fee for not working with a Chinese partner. Moreover, the authorities use this fee as a way to justify their approval of the wholly foreign-owned enterprises to higher officials in the bureaucracy. Similarly, Chinese scholars (Li and Xu 1994) pointed out that the law and regulations on joint ventures and wholly foreign-owned enterprises do not specify what percentage of their output to be exported or how many they are allowed to sell domestically.

Over the 1990s, some pioneering companies, frustrated by the limitations and under-performance of joint ventures, began experimenting with wholly owned enterprises. Many of those companies met only minimal resistance from the authorities. Chinese officials proved far more concerned about what outside investors can bring to the country in terms of jobs, technology, and foreign exchange – than how the deals are structured. At the same time, foreign investors find that wholly owned enterprises provide them with flexibility and managerial controls and make an excellent fit with China's competitive situation (Vanhonacker 1997).

The commitment to opening to the world economy and the transition to a market-orientated economy have led to increasing competition within China and forced the central government to adopt policies that comply with international standards (Child and Tse 2001). As a result, overseas investors can enter China in many different modes with greater confidence. This is in contrast to previous practice under which many industries (e.g. import and export, internet services, retail, insurance and banking services) were exclusively reserved for local firms or restricted to joint ventures. As a part of China's move towards privatisation, business operations are increasingly detached from government ties. For overseas investors, this disengagement implies that in deciding on their entry mode or in their choice of partners will be determined less by their local

partners' ability to work with the government and more by how the two firms complement each other, and the ability of the joint entity to develop sustainable competitive advantages (Child and Tse 2001).

### **3.3.3 Further Opening Up of the Hinterland**

In order to effectively attract foreign direct investment, the central government has opened up its vast hinterland for foreign investment. All levels of government in the hinterland have more offered incentives for overseas investors than that in the coastal region. As a result, the opening of the hinterland becomes attractive to those overseas investors already in the coastal areas. This creates competition pressure on local governments and business partners in the coastal region and gives overseas investors more bargaining power in the reformulation of their China strategy.

### **3.3.4 The Private Sector's Involvement**

With increasing unemployment due to the reform of state-owned enterprises, private enterprises and rural enterprises have been viewed as major employers. However, the development of the private sector is still inadequate.

In the early 1980s, the Chinese government started to encourage the private sector, aiming to improve the overall efficiency of the economy and to create jobs. By the 1990s, China's private sector showed progress in efficiency, product quality, job creation and financial strength. In the early 1990s, several large private enterprises in Guangdong province were approved to set up joint ventures with Hong Kong partners on a trial basis. In 1995, in line with their policy of encouraging wholly foreign-owned enterprises, the Chinese government started to encourage the private sector's involvement in foreign direct investment (Li 1995; Yang 1997).

Involvement by the private sector has helped to increase the number of joint venture projects and jobs. However, as local government have less control over the private sector (Li and Xu 1994), the emergency of joint ventures with private Chinese partners means a further loss of their control over joint ventures.

### **3.4 Conclusion**

This chapter has further developed the framework for analysis of China-based joint ventures. Yan and Luo's research framework (2001) relating to structural reconfiguration in international joint ventures has been adopted and modified to investigate into the evolution process of China-based joint ventures and identify the patterns of evolution.

Since the early 1990s, the Chinese government has started to shift its priorities with regard to foreign direct investment, moving from encouraging joint ventures to wholly foreign-owned enterprises. Changes in both Chinese government policies and the economic environment have had a strong impact on the strategic evolution of China-based joint ventures. This chapter has attempted to identify the two set forces, i.e. the driving and restraining forces for the stability of China-based joint ventures.

## Chapter 4 Objectives and Methodology

### 4.0 Introduction

The methodology adopted in this thesis is designed to be compatible with the exploratory study of China-based joint ventures. It is essentially both quantitative and qualitative, allowing the flexibility to explore a wide range of issues, and also to generate convincing evidence. The research objectives, methods, location of fieldwork, sample, and the data collection approach are discussed in what follows.

### 4.1 Research Objectives

This research was based on a 3-month of fieldwork in Dalian, China from 6<sup>th</sup> June to 5<sup>th</sup> September 1998. The overall objectives were to investigate the nature of the Chinese transitional economy and to identify its impact on foreign direct investment, and then to establish a evolving profile of China-based joint ventures. The issues addressed include:

- Drift of joint venture strategies
- The impact of the changes in Chinese business environment on the state policy towards foreign direct investment
- Changes in joint venture partners' strategies, ownership structure, management and operations
- The evolution patterns of China-based joint ventures in the 1990s

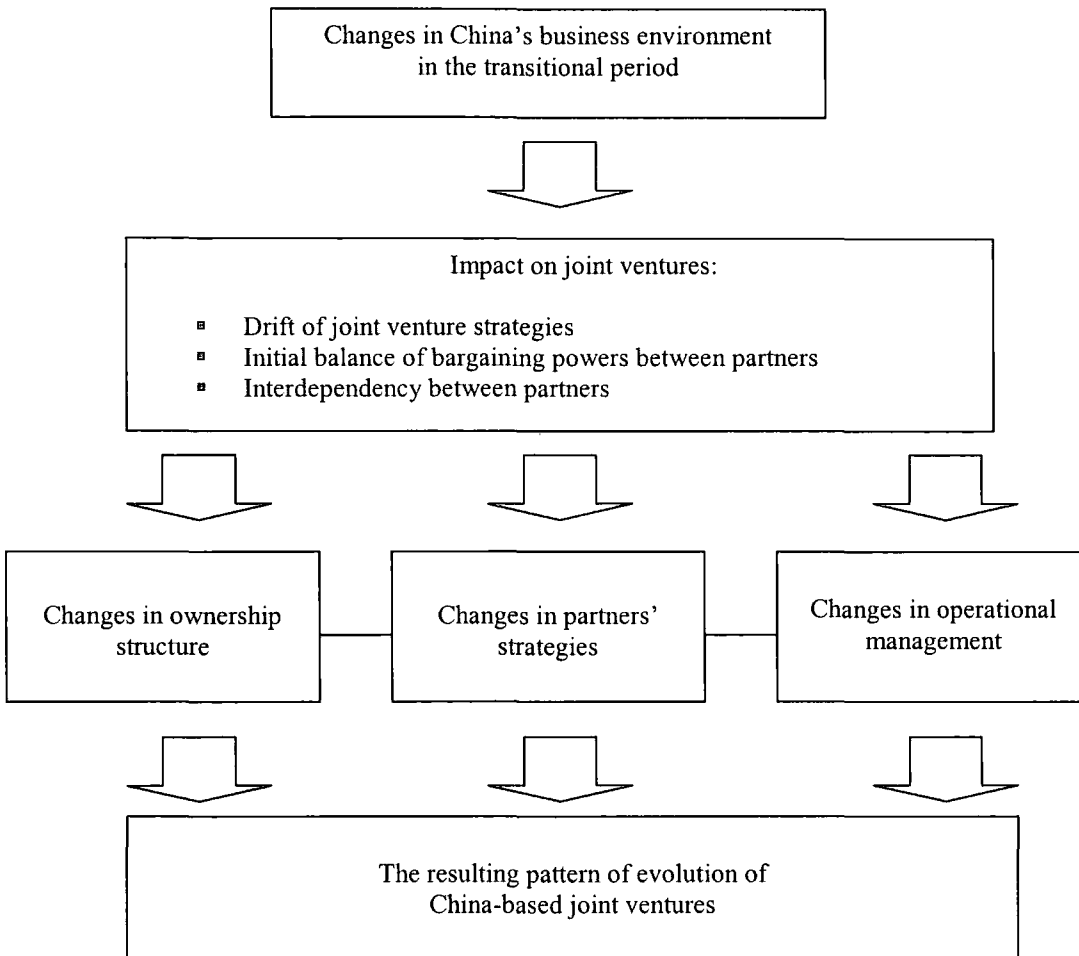
#### 4.1.1 Development of the Research Theme

Previous studies (Campbell 1989; Pearson 1989; Weldon and Vanhonacker 1999; Wong et al. 1999; Guthrie 2002) have indicated that China's business environment is exceptionally complex. Peng (2000) emphasises that the transformational path taken by China is not predetermined. Rather, it is continually emerging through strategic choices made by government and firms, and this implies that researchers need to closely look at



how those choices are made. As a result of exploratory research, the main theme of the thesis is established as follows (Figure 4.1-1):

**Figure 4.1-1 Main Theme of the Research**



Chapter Two shows that international joint ventures have vastly different in strategies. However, explanations for such strategic differences have been couched in ‘macro’ terms of politics and economics when other variables such as cultural factors, social structure, and technology development can explain this variability equally well.

Based on the results of exploratory research, Figure 4.1-2 summarises the key trends in China's business environment and development of joint ventures, taking into consideration of both external and internal factors. It also lists areas to be tested.

**Figure 4.1-2 Emerging Trends and Areas to be Tested**

(I) China's Economic Transition

Emerging trends

Impact of reform of state-owned enterprises including:

- Increased unemployment
- Need for alternative employment
- New financial problems

The impact of the Asian financial crisis including:

- Reduced inward investment
- Export slowdown
- Changing competitiveness



Impacts to be tested

- Limited finance for joint venture projects
- Less government pressure on setting up joint ventures
- More private involvement in foreign direct investment projects
- Less restrictions on wholly foreign-owned enterprises
- Further opening up of domestic market for FDI
- Further opening up of hinterland areas for FDI

(II) Business Environment Impact on Joint Ventures

Issues

- Initial balance of bargaining powers between joint venture partners
- Interdependency between joint venture partners



Changes to be tested

- Increased bargaining power of overseas partners
- Reduced bargaining power of Chinese partners
- Reduced needs for joint venture partner

## (III) Changes within Joint Ventures

## (1) Changes in partners' individual strategies

Chinese partners – Emerging strategies

- Increased control along functional management lines
- Increased domestic sales
- Withdrawal from unprofitable joint ventures
- Outward investment

Changes to be tested

- Market priority shifted from overseas to domestic market in order to increase control
- Efforts to expand domestic sales, aiming to prevent 'transfer pricing'
- Efforts to maintain majority ownership replaced by withdrawal from unprofitable joint ventures
- Setting up alternative joint ventures outside China

Overseas partners – Emerging strategies

- Long-term commitment to the China market
- Efforts to convert joint ventures into wholly foreign-owned enterprises
- Efforts to maintain overseas sales
- Localisation of management with own choices

Changes to be tested

- Acquiring complete ownership in order to reduce managerial and operational uncertainties
- Further investment aiming to buy out Chinese partners
- Efforts to control domestic sales
- Efforts to recruit senior Chinese managers

(2) Changes in joint venture ownership

Emerging ownership trends

- Shift of ownership between joint venture partners
- Transition from joint ventures to wholly foreign-owned enterprises
- More token joint ventures
- More transition from joint ventures to wholly Chinese-owned enterprises



Changes to be tested

- More official ownership transfer from Chinese to overseas partners
- More reinvestment from overseas investors controlled joint ventures
- Increase in token joint venture ownership through unofficial deals between partners
- Chinese partners take over joint ventures when overseas partners exit

(3) Changes in management and operations

Emerging trends in operational management

- More one-partner domination



Changes to be tested

- Dominant partner emerges from transfer of ownership
- Chinese partners are side-lighted in ventures dominated by overseas partners

- Changes in workforce recruitment channels
- China parent company's influence reduced



- Workforce recruitment switched from Chinese partner's parent company to local job centres
- Declining number of staff and workers from Chinese parent companies
- More Chinese general managers from third party entrants

- Establishment of joint ventures' own domestic sales forces



- Shift of marketing and sales channels from Chinese parent companies to own marketing and sales forces

- Predicted joint venture performance



- Chinese party controlled joint ventures least unprofitable
- Overseas party controlled joint ventures more profitable
- Transformed joint ventures more profitable

- Changes in the nature of cross-cultural management difficulties change.



- Less occurrence of mutual adaptation in one party dominated operation
- Increased workforce loyalty resulting from foreign investors' provision of housing, meals and medical care scheme for employees.

Based on the key trends in China's business environment and inside joint ventures, several hypotheses can be made, which are to be tested in the context of China's economic transition:

1. The changes in China's business environment work as a major driving force for the Chinese government to relax state control over foreign direct investment.
2. The relaxation of state control over foreign direct investment affects the initial power relationships of joint venture partners.
3. The new power relationships drive the changes in partners' strategies, ownership structure, and operational management.
4. A more rapid evolution of China-based joint ventures results from the above changes.

## 4.2 Research Methodology

### 4.2.1 Choosing the Research Method

Traditional research usually adopts two basic strategies for data collection. One follows a positive, or quantitative route, and the other a qualitative strand of thought. Positivist epistemology has frequently been criticized for assuming that social sciences can be investigated in the same way as the natural sciences (Smith 1989). This implies the reduces of human action to the status of automatic responses produced by external stimuli (Gill and Johnson 1991). By limiting its conception of valid knowledge to that which is considered to be clearly observable 'sense-data', the quantitative method has been criticised for missing out important data when dealing with complex phenomena (Smith 1989; Gill and Johnson 1991; Wright 1996). Through an artificial distancing from the phenomenon under investigation inherent in positivist epistemology, the researcher is not sufficiently close to the phenomenon to understand it fully (Smith 1989).

The natural consequence of this criticism of quantitative research was the extolling of qualitative research in the psychology, economics and management branches of the social sciences. Wright (1996) defined qualitative research as any research where number counting and statistical techniques are not the central issues, but where an attempt is made to get close to the collection of data in its natural setting by applying, among other things, case studies and participant observation. Both Smith and Wright argued that qualitative research methods give the researcher added flexibility in capturing social complexities, which detect how factors are related and what underlying psychological, economic, or social dynamics explain how they relate together. On the other hand, a principal criticism of qualitative research methods, such as case studies, is that they are unrepresentative, and only suitable for exploratory studies at best, whereas quantification is necessary to establish the true overall validity of research findings. Wright proposed to 'minimise' this drawback by using more than one case, and matching cases as far as possible along some variables, including industry, similar size and entering a foreign market within the same time period. Although Wright's argument may minimise this drawback of qualitative research, it is not strong enough to eliminate it, and the

implication of Wright's choice of the word 'minimise' is that there remains something undesirable left over.

Various authors have accepted a position of triangulation, where qualitative and quantitative research methods are combined, such as Rohner (1977), Bennett (1983), Smith (1989), Snow and Thomas (1994), Yin (1994) and Wright (1996). A strategy of triangulation implies combining principal research methods, such as historical research, case studies, surveys, and field experiments. Snow and Thomas (1994) noted that studies that employed a triangulated methodology have an impressive record in the strategy literature. However, the multi-method approach also has its limitations. For example, the use of more than one field method introduces analytic diversity, though such diversity is low, relative to the entire range of research methods. Indeed, the use of multiple field methods may only be sufficient to create within-method triangulation (Denzin 1978), which means that the researcher has examined a phenomenon or relationship from various angles.

However, the research methodologies in 43 previous Western studies on Sino-foreign joint ventures in the 1980s and the 1990s were mainly interviews (16 studies – 37.2%), case studies (15 studies – 34.8%) and questionnaires (12 studies – 27.9%). See Table 4.2-1, 2, 3 for details.

**Table 4.2-1 Sino-Foreign Joint Venture Studies – Interviews (16 studies)**

<b>Date</b>	<b>Authors</b>	<b>Foreign Partner</b>	<b>Research Method</b>	<b>Studies</b>
1985	Daniels et al.	USA	Interviews	Investment motivation and risk management
1988	Campbell	Various	Interviews	A strategic guide to joint ventures in China
1989	Li et al. (in Chinese)	Various	Interviews	Management of JVs: structure, style and adaptation
1989	Pomfret	Various	Interviews	Joint ventures in Jiangsu Province, China
1990	Child et al. (in Chinese)	Various	Interviews	Management: control, decision making and culture
1990	Dutta & Merva	USA	Interviews	US-China joint ventures: economic appraisal
1991	Pomfret	Various	Interviews	Characteristics of joint ventures and evaluation
1993	Beamish	Various	Interviews	The characteristics of joint ventures in PRC
1993	Pan, Vanhoneracker et al.	Various	Interviews	Operations and potential closing down of JVs in China

1994	Gledhill R.	UK	Interviews	Interest in investing in China
1996	Lan Ping	Various	Interviews	Role of IJVs in transferring technology to China
1996	Osland G.E & Cavusgil S.T.	US	Interviews	Performance issues in US-China joint ventures
1997	Pan Y.	Japanese/USA	Interviews	The formation of Japanese and US JVs in China
1999	J. Walsh, E. Wang & K. Xin	USA	Interviews	Same bed, different dreams: working relationships in Sino-American joint ventures
1998	A. Sergeant & S. Frenkel	Various	Interviews	Managing people in China: perceptions of expatriate managers in China-based joint ventures
1999	Y. Wang, T. Maher, R. Jenner, A. Appell & L. Hebert	Various	Interviews	Are joint ventures losing their appeal in China

**Table 4.2-2 Sino-Foreign Joint Venture Studies – Case Studies (15 studies)**

Date	Authors	Foreign Partner	Research Method	Studies
1986	Hendryx	USA	Case studies	Technology transfer in joint ventures
1988	O'Reilly	USA	Case Studies	A CEO's perspective
1988	Goldenberg	USA+UK	Case studies	Managing joint ventures in China and Japan
1990	Crub & Lin	Various	Case studies	Foreign direct investment in China
1990	Hakam & Chan	Singapore	Case Studies	Key factors in negotiation process
1990	Mayer et al.	Various	Case studies	Performance in joint ventures
1990	Oded Shenkar	US,UK,HK	Case Studies	Joint venture problems in China: risk and remedies
1991	Aiello P.	USA	Case studies	Building a joint venture in China: Beijing jeep
1991	Paul Aiello	USA	Case Studies	The Case of Chrysler and Beijing Jeep Corporation
1991	Shapiro et al.	USA	Case studies	Chinese environment and negotiation
1992	Newman	USA	Case Studies	Stages in starting a viable JV
1993	Bruijn & Jia	Various	Case studies	Product selection strategy
1994	Weiping Wu	Various	Case Studies	Guanxi and its managerial implications
1996	Kim S.C.	Hong Kong	Case studies	Analysis of strategic issues for IJVs
1997	Luo & Min Chen	Various	Case Studies	Does guanxi influence firm performance?

**Table 4.2-3 Sino-Foreign Joint Venture Studies – Questionnaires (12 studies)**

Date	Authors	Foreign Partner	Research Method	Studies
1987	Davidson W. H.	USA	Questionnaire	Creating and managing joint ventures in China
1990	Baird et al.	USA	Questionnaire	Attitudinal differences in JV investment
1990	Henley & Nyaw	Various	Questionnaire	Management systems and organisation
1990	Nyaw	Various	Questionnaire	Roles of trade unions in joint ventures
1992	Brunner et al.	USA	Questionnaire	Chinese perception of issues



1992	Casson & Zheng	Various	Questionnaire	Testing joint venture theory
1992	Stelzer et al.	USA	Questionnaire	JV performance in terms of location
1993	Glaister, K.W. & Wang, Y.	UK	Questionnaire	UK JVs in China: motivation and partner selection
1994	Au and Enderwisch	New Zealand	Questionnaire	Small firms' perception on JV investment
1996	Ping Lan	Various	Questionnaire	Role of JVs in transferring technology to China
1997	Dong, Buckley & Mirza	Various	Questionnaire	JVs in China from a managerial perspective:
1999	Jan Selmer	Various	Questionnaire	Effects of coping strategies on adjustment of Western expatriate managers in China

Analysis of the 43 studies suggests that, firstly, international researchers or overseas-based Chinese researchers carried out their surveys mainly through their personal connections, such as diplomatic agencies (embassies, consulate-generals) or China-based representative offices. Although many international researchers had tried hard to contact as many respondents as they could, the sample size generally was small and the response rate low, because of the limited access to general population and the lack of official assistance. Hence, the primary research contacts of international researchers were limited to joint ventures with home country partners, and therefore overseas partners and expatriate managers were the main focus of most previous studies. Less first-hand data was obtained from Chinese partners and government officials who oversee joint venture activities.

Secondly, with several exceptions, extant research projects have rarely used multiple methods that combining questionnaires, interviews and case studies. Because of the time limited and resources, researchers often had to choose qualitative rather than quantitative method, as it is nearly impossible to generate an ideal survey sample whose size is sufficiently large and response rate in China is usually too low (Kaiser and Kirby 1996). China-based joint ventures, and Chinese partners/managers in particular, are still controlled in many ways by the Chinese government. Governments are sensitive to criticisms and negative reports, including those about joint ventures (Guthrie 2002). Hence, government officials and Chinese joint venture managers often would ignore private questionnaires or refuse requests for private interviews fearing that their answers and comments might be offensive to government departments.

Third, there were no joint research projects involving both international researchers and Chinese government departments or local authorities, except for that of Guthrie (2002). As a former government official, my own experience proved that Chinese government and local authorities in general had a negative attitude towards international studies (fieldwork in particular) on joint ventures in China. Guthrie (2002) pointed out that a researcher must have a host organisation (for visa purposes) if she wants to conduct research over an extended period of time in China. The foreign affairs office of a local government is often an arm of the Party, one of whose jobs is to watch for the activities of foreign researchers. These officials are concerned with the flow of information across China. It is customary that anyone must be introduced to get into an organisation to talk to managers. Hence, it is no simple matter to conduct a survey with the Chinese government or a local authority.

To compensate for the shortcomings of previous studies, the methodology adopted by this research was adjusted to employ both the questionnaire survey and in-depth interviews, to combine the merits of both methodological strands. The first requirement of this research was a large-scale questionnaire survey of joint ventures in collaboration with relevant Chinese government departments. The questionnaire data collection would reveal how many joint ventures were operating in the transitional period. This type of data (gathered through questionnaires sent to joint ventures by the government departments), would not, however, allow the author to see firsthand how the joint ventures are actually structured in their internal organisation, whereas an on-site visit/interview would be able to do so. Any substantive and contextual discussions on the issues raised would be difficult. In addition, when joint venture managers are asked by government officials to fill out questionnaires, as has been the case in previous studies, the quality of information is often problematic. Guthrie (2002) argued that there was a remarkable difference between information gathered through state channels and that gathered independently, as some information would never have been revealed in a state-sponsored questionnaire.

The second requirement of this research was to gather information through in-depth interviews. Although the data emerged from a questionnaire survey conducted in the name of local authority can generally be trusted, the questionnaire approach would not afford an opportunity to clarify or discuss issues from the managers' own points of view, and one could never be certain that the joint venture managers were interpreting the questions in the way originally intended. Furthermore, the questionnaire data collection would not allow further exploration of what joint venture managers thought about specific issues. This proved to be crucial to the current research, because their points of view could consolidate one's confidence in the quality of the data collected. In-depth interviews allow for the deepest contextual understanding of issues and questions that arise in the field. The researcher can gain a deep and textured perspective on the social, political, and institutional structure of one or more specific research sites. However, the obvious question that arises from in-depth interviews is the extent to which the specific cases examined are generalisable. As the 43 previous studies showed a mainstay for China research is in-depth interviewing of joint venture partners and managers. This type of research has several strengths. The researcher can often learn more about context and thought processes than is possible in a large-scale questionnaire survey. The researcher can probe, clarify, and ask follow-up questions about a given topic, questions, or response. Exploring a subject across a large number of issues allows the researcher to examine ideas of political and institutional structure in a number of different contexts. The weakness of in-depth interviews, however, is that while the population of joint ventures is larger than that explored in interviews, it is not possible to know to what extent, if any, this population of joint ventures or managers is representative of any universe of China-based joint ventures. Since the joint ventures and managers in these types of surveys are typically not selected in a random sample, it is likely that systematic biases are built in. In addition, it is likely that organisations (and individuals) with particular characteristics (e.g., openness to the outside, high performance) will be more willing to talk to foreign researchers than those without these traits. Whether these include attitudes toward foreigners, openness about China's transition, or specific aspects of the organisation's institutional structure, they are likely to be correlated with the

dependent variables. A random sample eliminates these problems because the errors are random and therefore uncorrelated with the dependent variables.

As a contrast to conducting a questionnaire jointly with the local authority, the third requirement was that I carried out in-depth interviews with Chinese and expatriate joint venture managers and local government officials conducted by the author as an independent, overseas-based researcher. Thus, all the interviews would be handled without being attended by government officials, so that official elements could be eliminated wherever possible. Walder (1989), who also conducted in-depth interviews with Chinese industrial managers, pointed out that they are far more open and candid in private interviews than they are in those that are public, formal, or set up by state officials. No long ago in China, many barriers still existed for foreign and overseas Chinese investigators to conduct research independent of state interference. Even in China today, although foreign researchers are permitted to set up private interviews without an official presence or intervention, it is not a simple matter. Finally, the interviews are to be conducted on-site, i.e. on the joint venture grounds. This would allow the researcher to compare the manager's story with what was actually seen occurring in the factory. Previous researchers, such as Guthrie (2002), argued that joint venture managers tended to be more at ease and open in their own setting. Naturally it would be easier to build rapport in these situations.

The fieldwork was started with a private contact according to a pre-arranged fieldwork approach network (Figure 4.2-1). From the private contact, an official and a private contact route were derived. The two parallel fieldwork routes were pursued throughout the data collection.

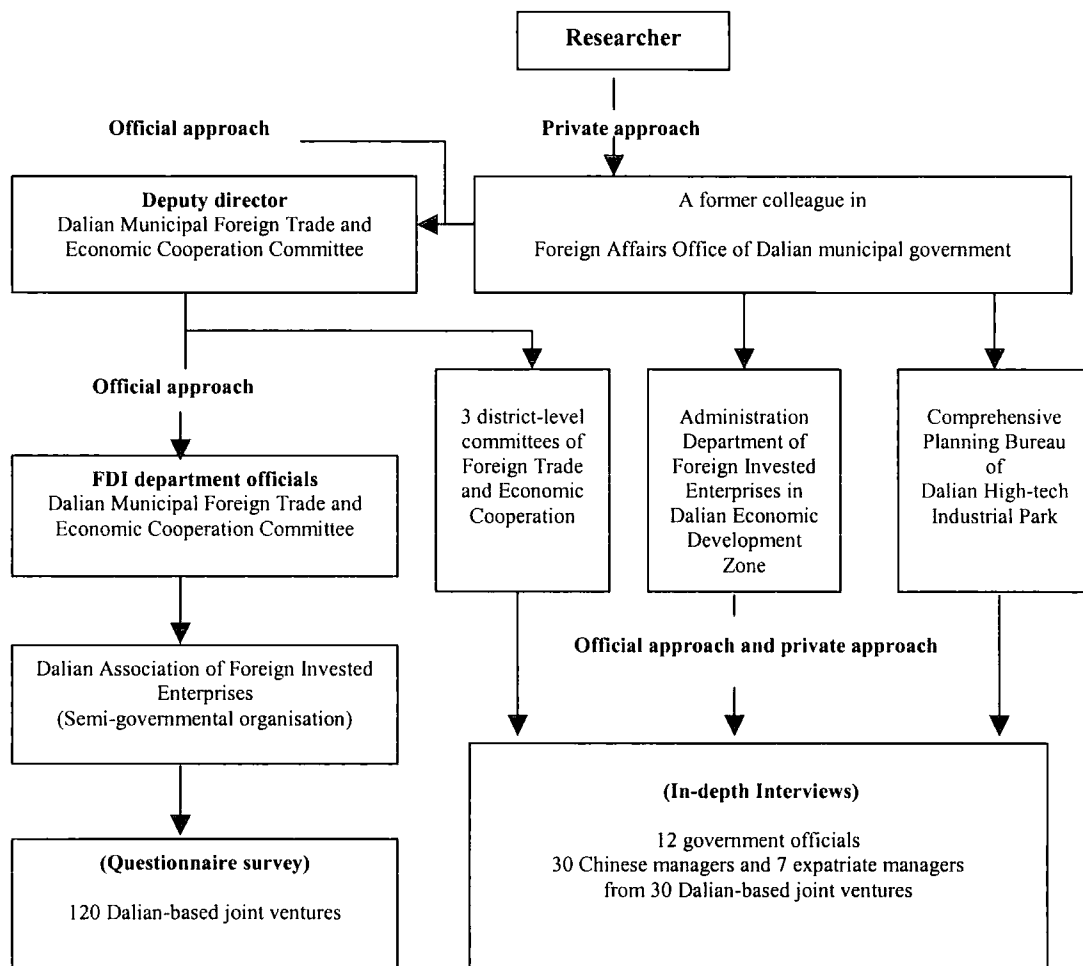
To initiate the fieldwork of this study, a former colleague<sup>1</sup> in the Dalian municipal government was contacted from the UK, a copy of the fieldwork proposal was presented to him and he was asked for a copy of the local joint venture directory. A few weeks

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<sup>1</sup> Deputy Director of the Foreign Affairs Office of Dalian municipal government. He was my immediate superior between 1988 and 1995.

later, the former colleague told that local government officials were not interested in any kind of research on joint ventures by overseas researchers for two reasons. First, the local authority had received numerous requests for this kind of research and had no intention of assisting any of them. Second, they feared that some negative elements of joint ventures might be made public having a negative effect on Dalian's image. As for the directory of joint ventures, it was told that although there was an official one, which listed all foreign invested enterprises (including wholly foreign-owned enterprises and joint ventures), it was not accurate, because many ventures had actually closed-down. As the local government had no intention to make it public, those closed-down ventures were not removed from the directory.

**Figure 4.2-1 The Fieldwork Approach Network**



Further efforts were made by the contact to approach a deputy director of the Dalian Municipal Foreign Trade and Economic Cooperation Committee to persuade him to consider giving approval to a joint survey. Because of the special personal relationship (guanxi) between them, the deputy director agreed to meet the current author when he was in China. Before his setting out for China, a letter was sent to the Mayor of Dalian, under him the author used to work between 1988 and 1995. The Mayor was asked to give his support for the survey, which, it was stressed, would not only benefit the study, but also joint venture businesses in the region. The Mayor's office passed the letter to the deputy director mentioned above, with a note asking him to assist the research if possible.

When the author arrived in Dalian, a dinner was arranged by the contact to meet the deputy director and several of his staff. The deputy director gave warm welcome and surprisingly, he mentioned the letter to the Mayor and told that the local government was interested in the study and would like to consider the proposal for a joint survey.

In the next few days, several meetings were held with staff from relevant departments and the details of the survey plan were discussed. Overall, the personal relationships with former colleagues, the Mayor and the deputy director proved to be critically helpful to this study. In addition, in case no official assistance with interviews was available, some private contacts with Chinese venture managers were made as a backup to ensure an adequate interview sample size.

### **(1) Questionnaire Survey**

Snow and Thomas (1994), when examining the variety of field research methods used in strategic management, proposed that a questionnaire survey might realistically reveal strategic processes. A questionnaire survey is particularly useful when large number of people have been contacted in order to obtain data on the same issues. Also, conducting a survey permits conclusions to be generalised (Jankowicz 1994). Some authors (Jobber and Saunders 1988) consider the use of a questionnaire survey as an inexpensive method of gathering data, making the carrying out of surveys possible. Elsewhere as in Snow and Thomas 1994, it is suggested that the questionnaire survey is an efficient, though less

flexible, substitute for observation or interviewing and cheaper to administer, while at the same time covering more respondents.

Questionnaire surveys also have disadvantages, however. There are situations where alternative means of data collection are more promising. For instance, some authors (Gaedeke and Tootelian 1976; Snow and Thomas 1994) considered as a major limitation of questionnaire surveys the typically low response rates. This is especially true when surveys are mailed directly to respondents without prior contacts, or when the intended respondents are top managers (Snow and Thomas 1994). The low response rate tended to reduce level of confidence in the extent to which the results can be inferred about the population. Distributed questionnaires even may be totally ignored by respondents, particularly when questionnaires are too comprehensive, since respondents are likely to be careless (Jankowicz 1994). As a useful rule of thumb for postal questionnaires, Howard and Sharp (1983) suggested an upper limit of ten pages, or 15 minutes, for completion. Management has only a limited amount of time and filling in lengthy questionnaires is certainly not a priority.

Studies on foreign direct investment experienced response rates ranging from 15 to 56 percent (Habib 1978; Eiteman 1990; Lau 1992; Gledhill 1994; Glaister and Wang 1993; Leung and Yeung 1995), whereas studies of small and medium sized enterprises (Kaiser 1998) found the response rates to be between 7.5 and 92 percent, with 25 to 50 percent as the mode.

A review of the 12 previous questionnaire surveys on joint ventures in China showed that the overall response rate was lower than 50 per cent. This came as no surprise because after the author's approach to several local authorities in Beijing, Shenzhen, Xiamen and Dalian regarding a joint questionnaire survey, the feedback was quite negative. Respondents were increasingly tired of answering questionnaires, particularly faxed and posted ones. Similarly, Kaiser (1998) observed at a session of the German joint venture round table seminar in Shanghai, that participants complained that too many researchers kept sending metre-long questionnaires through their fax machines.

The design of the questionnaire was obtained from the literature on China-based joint ventures and findings of the exploratory research. The analytical research framework on the changes in joint ventures was developed in Chapters Two and Three. The questionnaire had 7 pages, exploring the general transitional profile of Dalian-based joint ventures. In addition to identifying the critical factors associated with the joint ventures' transitional strategies, the questionnaire was aimed at establishing a profile of Dalian-based joint ventures. For joint venture managers, the questionnaire was short and direct. There was little scope for lengthy, open-ended questions, and technical terms were avoided where possible. In the light of past experience, joint ventures and wholly foreign-owned enterprises in China were sensitive to questions about turnover and taxation, often fearing the results might be used against them later on. Therefore, all turnover and taxation-related questions were excluded. The format of the questionnaire, both the Chinese and English versions, are included in Appendices I, II and III.

Overall, 120 joint ventures participated in the questionnaire survey. All were members of the Association of Foreign-Invested Enterprises, and in the opinion of the local authorities were relatively formal joint ventures. Of the 120 questionnaires sent out, 103 were answered and sent back. Although both Chinese and English versions of the questionnaire were provided, all the feedbacks were in Chinese because all the respondents were Chinese with only one exception, a Japanese general manager, who also speaks Chinese. Nevertheless, the biases of the questionnaire survey were compensated by the in-depth interviews.

This was the first joint official survey jointly conducted by Dalian government departments and a researcher from an overseas university, and the response rate was 85.8 per cent. In the feedback, most questions in the survey were answered, with the exception in two question groups:

Section 6 – Joint venture management (questions 42-55). These questions focused on the relationship between management and workforce as well as cross-cultural management



issues, which were intended to gather cross-cultural related information. These questions might be too sensitive, as answers could offend superiors or venture partners.

Section 8 – Factors affecting the joint venture's operations (questions 75-77). These were about external and internal factors affecting the operation of the joint venture. The intention was to generate data about the changes in the joint venture's external and internal environments, and were needed to analyse strategic changes. Although most questions in this section were not judged by the researcher to be sensitive, to avoid annoying the local authorities, many respondents did not complete the section. Nevertheless, the occasional lack of complete answers was offset by in-depth interviews that were carried out in a less official atmosphere.

## **(2) In-depth Personal Interviews**

Although a questionnaire survey is a valuable way of identifying strategic changes, it provides limited opportunity to investigate further. Shenkar (1994) argued that questionnaires are less useful in a Chinese environment. To redress this imbalance, qualitative research methods, for example in-depth interviews, proved a better alternative. The purpose of in-depth personal interviews is to verify the questionnaire survey findings and to access more detailed, strategy related information if possible.

The qualitative data for this study were gathered through face-to-face interviews with joint venture managers and government officials directly involved in the joint venture activities. The core of this study is based on interviews with joint venture managers. To be sure, interviewing joint venture managers might lead to a somewhat one-sided view of life inside China-based joint ventures. However, it was necessary to interview the individuals who had access to that information for each venture in the data set. Thus, most interviews (74%) were conducted with venture managers. Chinese and expatriate venture managers were all invaluable sources for this study, as they offered different perspectives on the practical meaning of the changes within joint ventures. The interviews, with four exceptions, were conducted with either the venture's general



manager (managing director) or a deputy general manager. Sometimes the general manager was away or unavailable, then a senior manager would be asked for interview.

During the period under examination, significant policy changes had taken place, the implication of which would be made clearly if government officials could be enlisted for discussion. So apart from venture managers, 13 local government officials were also interviewed. Archival data were valuable, but there is no substitute for discussing the meaning of policy changes with individual officials who view the changes from different perspectives and their particular positions within the government departments. A joint venture manager can reveal how that policy is actually carried out at the level of the firm, but a government official may be able to discuss a policy as the government intended it to be implemented and carried out. With the questionnaire survey and in-depth interviews it was able to piece together a multifaceted story of what happened at the joint venture level.

Through a deputy director of the Dalian Municipal Foreign Trade and Economic Cooperation Committee, the author was introduced to three district-level authorities who assisted in conducting in-depth interviews with officials, Chinese and overseas joint venture managers. After several preliminary meetings with officials, it was agreed upon an overall interview plan: (1) The author was introduced as an independent overseas-based PhD student in order to dilute any official elements wherever possible. (2) Official interviewees were selected by the local authorities. (3) Joint venture interviewees were selected randomly from the questionnaire data set by the author. (4) Interview appointments were arranged by local officials, and when necessary, transport was arranged. (5) The author conducted interviews at each joint venture site.

Most interviews took place in the interviewees' offices or their meeting rooms, as interviewees might feel more comfortable there and relaxed enough to talk. Most interviews lasted around one hour, but in some instances certain persons were interviewed several times, each session lasting several hours. Interviews with Chinese

managers were conducted in Chinese and interviews with expatriate managers were in English.

Interview questions for different levels of local government officials were open questions focusing on changes in macro-environment, political pressures, the role of local government in foreign direct investment, the impact of changes in the business environment on Dalian-based joint ventures, and general trends of foreign direct investment in the region. Interview questions for joint venture managers were open questions as well. The interview results reported in Chapter Six were grouped into four categories: impact of changes in China's business environment, joint venture partners' strategies, joint venture ownership structure, operational management and future outlook.

#### **4.2.2 Choice of Research Location**

China's foreign direct investment position is complex. One can access most of the 'positive' figures about foreign direct investment from central government, provincial and city-level governments, in terms of the number of projects with foreign investment, the contract volume of utilisation of foreign inward investment capital, and the number of jobs supposedly created by foreign-invested enterprises. However, it is very hard to access any 'negative' information regarding foreign direct investment. For example, although the figures for total joint venture projects established since 1979 in Dalian area are available, it is nearly impossible to obtain the figure for how many joint ventures were subsequently closed-down. Therefore, it is difficult to make an overall assessment of their stability, and almost impossible to carry out realistic research into these joint ventures across China as a whole.

For the choice of the fieldwork location, it was initially targeted at several opening regions hoping that joint venture activities in one of the opening regions can substantially reflect that of other such areas. Beijing, Shenzhen, Xiamen and Dalian, these four cities were originally chosen as the fieldwork locations. However, in Beijing, Shenzhen and Xiamen the attempts to carry out a joint survey with local government departments failed,

because contacts in these cities could only manage to arrange two or three joint ventures each for the fieldwork through their local connections (*guanxi*).

Dalian was then chosen as the research location. Dalian holds a leading position among the 14 coastal cities of China, which have been opening up to the outside world since 1984. A major seaport, Dalian is located on the eastern coast of the Eurasian continent and at the southern-most point of the Liaodong Peninsula in Northeast China. The city is well known in China for its fine natural harbour, well-established industries, flourishing trade and tourism. Among China's top 50 cities, Dalian ranks sixth in terms of income, and eighth in terms of overall economic strength. It is also the third largest port in China, and the second largest export harbour in China. In this sense, Dalian is more 'open' to external environment changes than many other cities.

As one of China's economic centres, Dalian provides access to the outside world for the whole of Northeast China and Inner Mongolia. Eighty percent of the region's imports and exports are shipped through Dalian. It was also the venue for 40 international trade fairs from 1984 to 1997. Dalian's industrial development is characterised by the dominant position of the heavy industry, which accounts for 60 per cent of the value of its total industrial output. Because of Dalian's dynamic economy and its advantageous geographical location, nearly every major city in North China has set up a representative office there. In fact, Dalian's communication facilities not only give access to northern China, but also to other markets in Northeast Asia, including Japan, South Korea, North Korea, plus Russia.

More than two decades of economic reform have brought about profound changes in Dalian. The Dalian Economic and Technological Development Zone was among the first to be authorised by the central government. Situated in a bonded area, the Dalian Hi-tech Industrial Park is also approved by the state, and offers preferential conditions for foreign investors. Dalian's opening up to the rest of the world happened 5 years later than that of the four Special Economic and Technology Development Zones. However, its development has also undergone similar stages: 1984 – 1992 Period of original

development, 1993 – 1996 Period of rapid development, 1997 – 1998 Period of slowdown. A senior Dalian official interviewed claimed that, by the end of May 1998, 7054 foreign investment projects, including 1395 overseas representative offices had been approved by Dalian municipal government. This makes it one of the five cities in China with the highest concentration of foreign firms and representation of overseas businesses, trading companies, and financial institutions. Ten foreign banks had already started operations in Dalian by 1998<sup>2</sup>. Overseas investors from over 70 countries have presence in Dalian, with activities ranging from manufacturing and international procurement to information technology. Famous multinationals that have made their presence in Dalian include BTR, Invensys, Pfizer, Matsushita, Canon, Toshiba, Sanyo, SEIKO, TDK, THK, Total, Hyundai, LG, Daewoo, Samsung. More than 1500 foreign companies have also chosen Dalian as a base, setting up representative offices and appointing agents. Moreover, 30 per cent of the local population are employed by foreign-invested enterprises (300,000 jobs)<sup>3</sup>.

#### 4.2.3 Creating the Research Sample

As mentioned earlier, the survey was carried out by the author under the auspices of the Dalian municipal government. The local authority was involved in the selection of the survey sample. During the fieldwork, officials of the Dalian Municipal Foreign Trade and Economic Cooperation Committee launched a six-month compulsory training courses in the new taxation system for all Dalian registered joint ventures. Senior managers of joint ventures had to apply for a training session that fitted in with their own work-schedule. 120 applicants applied for the first training session and they were selected by the staff of Dalian Association of Foreign-Invested Enterprises to be included the questionnaire survey sample. The interview sample was also randomly selected, based on the questionnaire survey sample plus several arrangements through private connections. Overall, 12 Dalian government officials at different levels, 30 Chinese and 7 expatriate venture managers were interviewed.

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<sup>2</sup> Foreign Direct Investment Statistics, May 1998, the Planning Department of the Dalian Municipal Foreign Trade and Economic Cooperation Committee.

### **4.3 Strengths and Limitations of the Research Methodology**

#### **4.3.1 Strengths of the Methodology**

The exploratory research and the review of previous studies have facilitated the adoption in this study of a combined research methodology. The strengths of this research are reflected in the following three aspects:

##### **(1) Combining Quantitative and Qualitative Methodologies**

Although the response rate was, due to help from official involvement, much higher than the average, the results of the questionnaire survey might still be not perfect, as respondents would inevitably leave some sensitive questions unanswered. The weakness of the questionnaire survey in this regard can be limited by a qualitative, on-site survey conducted at the same time. The local government department's involvement made it possible to conduct a series of in-depth interviews with government officials as well as Chinese and overseas joint venture managers. No joint venture managers refused an interview appointment arranged by the government department, and this provided the author with good opportunity to target senior joint venture managers, in order to gather as much information as possible.

##### **(2) Collaborative Survey with the Dalian Municipal Government**

The survey, as part of the current research, was the first survey on Dalian-based joint ventures to be officially sanctioned. The interest of local government proved to be vital to the generation of the 120 joint venture sample. Within Chinese local authorities, foreign-invested enterprise departments have controlling power over ventures in many aspects, such as any changes of joint venture's directors, ownership transfer, business scope, percentage of exportation and domestic sales, as well as the approval of overseas visits made by the joint venture's Chinese personnel. The use of the government's name in the survey helped achieve not only a larger sample size (120 ventures) but also a higher response rate (85%). As a result, the local government department's support and assistance made the survey more fruitful than could have been anticipated.

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<sup>3</sup> Foreign Direct Investment Statistics, May 1998 – the Planning Department of COFTEC, Dalian.

### **(3) Informality in Personal Interviews**

In the in-depth interviews, to prevent interviewees giving 'diplomatic' answers and to encourage them to talk freely, official involvements were kept to the minimum. Apart from all the government officials interviewed, no links between the questionnaire survey and the interviews were mentioned. The author was introduced as the interviewer by several officials via telephone calls to both Chinese and overseas joint venture managers and was specifically introduced as Mayo's personal friend. It was stated that the interviews were for academic purposes, and would not be published in China. As a result, most Chinese and overseas senior managers made themselves available for interviews. Not a single appointment was cancelled, although in some cases only deputy general managers were available.

#### **4.3.2 Limitations of the Methodology**

The questionnaire survey sample used was randomly selected by the local authority from a compulsory training course. However, it was limited to members of the Dalian Association of Foreign-Invested Enterprises. As they are relatively well-established joint ventures, the survey findings may not be entirely representative of Dalian-based joint ventures as a whole, irrespective of the detailed answers given. Secondly, with only one exception (a Japanese general manager), all the questionnaires were answered by Chinese managers or senior staffs. Although this was mended by personal in-depth interviews, the biases of the questionnaire survey could not be completely eliminated. Thirdly, all the in-depth interviews were arranged by local officials, so the interviewees may have been influenced by the fact of official involvement and reluctant to tell their stories fully. Finally, the data published by the local government were employed in this research. However, it is difficult to access 'negative' data. For example, a number of joint ventures have closed down each year in most opening regions in China but no official data are available about the closure. A senior government official<sup>4</sup> informally said that there had been about 2000 joint venture closures in Dalian, but local government would never allow disclosure of such figures officially. The public could only know that the number of

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<sup>4</sup> A Deputy Director of the Dalian Municipal Committee of Foreign Trade and Economic Cooperation.

Dalian-based joint ventures was increasing but not that many close-down cases were also being encountered.

#### **4.4 Conclusion**

This chapter has discussed the development of the research theme to advance the understanding of the Chinese transitional economy and changes in China's business environment, along with the impact of the changing state policy of foreign direct investment. The literature review and exploratory research have identified emerging trends of the development of China's business environment and changes in joint ventures, and areas needing to be investigated further with fieldwork. Secondly, a research methodology, which combined use of a questionnaire survey officially sanctioned by the Dalian municipal government and unofficial in-depth personal interviews, was designed to obtain further information.

This chapter has also discussed the strengths of the combined methodology and the complementary relationship between the quantitative and qualitative surveys. Quantitative research strategies may be useful to identify specific changes in the strategies of joint ventures, but are not necessarily appropriate when trying to determine how and why joint venture partners perform as they do. Thus, in-depth personal interviews are proposed as a complementary alternative to provide more detailed information on the transitional strategies of joint ventures.

This chapter has also pointed out that the major limitation of the research methodology is mainly related to the data management by Dalian government departments although official involvement in the survey is vital.



## Chapter 5 Questionnaire Survey Results

### 5.0 Introduction

This chapter presents the findings from the Dalian questionnaire survey. These survey findings are supplemented by in-depth information derived from interviews with local government officials, and Chinese and overseas joint venture managers. The structure of the analysis follows the research framework developed in Chapter Four.

The findings are reported in two separate sections. The first, which is essentially descriptive, draws together information from the survey in order to formulate an overall profile of joint ventures up to 1998. The profile has been established with respect to industry sectors, position of respondents, age of joint ventures, and country origins of overseas partners. The second section focuses on the internal characteristics of joint ventures. It reveals venture partners' strategy, ownership structure, and operational management variables.

### 5.1 General Survey Profile

With approval of a vice-mayor, the joint questionnaire survey was carried out in the name of the Dalian municipal government. Officials from Dalian Foreign Trade and Economic Cooperation Committee instructed the Dalian Association of Foreign Invested Enterprises to arrange for joint ventures to participate in the survey. Three members of staff were dispatched to work with the author as a temporary group of task force to conduct the survey, and 120 local joint venture enterprises were selected for the questionnaire survey. All these joint ventures were relatively stable ones judged by local government officials. As this was a joint survey with government departments, local officials and the author agreed that the names of individuals were to be disguised, while company names were not.

The 120 joint ventures selected were given five days to complete the questionnaires. By the end of the five days, 89 questionnaires were returned to the task group, which was an unusually high response rate. However, it took another five days to chase the rest of the companies via telephone in the name of the Association. The most frequent explanation for the delay was that their general and/or deputy general managers were out of town. To facilitate the matter, they were asked to have the questionnaires completed by a manager at the next level down. Eventually, of the 120 joint ventures surveyed, 103 companies responded, a response rate of 85.8 percent. The details of the 103 joint ventures that responded are in Appendix IV.

Analysis of the survey data is now carried out by cross tabulations, which enable comparisons to be made between two groups of different attributes: (1) Industry sectors, positions of respondent (i.e. general manager), age of the company and size (number of employees) and country origins of overseas partners. (2) External impact on joint venture, joint venture strategies, joint venture ownership structure, and joint venture operational management.

### 5.1.1 Industry Sectors

The 103 respondents were divided into four different industry sectors: manufacturing, property development, hotel/restaurant, and services (Table 5.1-1).

**Table 5.1-1 Breakdown of Industry Sector of Joint Ventures Surveyed**

No.	Industry Sectors	Number of Companies	Percentage
1	Manufacturing	86	83.4%
2	Property development	5	4.9%
3	Hotel/restaurant	4	3.9%
4	Services	8	7.8%
	Total	103	100%

The distribution by sector of all the 103 respondents showed that manufacturing was the dominant sector (86 cases, including foot-wear, textiles, furniture, clothing, food and

electronic products), five cases in property development, four cases in hotel/restaurant business and eight cases in services. This suggested that labour costs were a strong consideration for overseas investors to set up joint ventures in Dalian as these enterprises are all labour-intensive.

### 5.1.2 Respondent Positions

All participants were told that the questionnaire should be answered by general managers. If the general manager was an expatriate, a Chinese deputy general manager could provide answers instead. However, only 25 questionnaires were answered by general or deputy general managers. In most cases (55 ventures), the respondents were department managers. Some respondents (23 ventures) were junior clerks (Table 5.1-2).

**Table 5.1-2 Breakdown of Job Titles of Respondents**

No.	Job Title	Number of Respondents	Percentage
1	General manager	11	10.7%
2	Deputy/assistant general manager	14	13.6%
3	Controller/ Accounting manager	32	31.2%
4	Human Resources manager	2	1.9%
5	Office manager/ Administrator	12	11.7%
6	Sales manager	3	2.9%
7	Public relations manager	1	0.9%
8	Department manager	5	4.9%
9	Accountant	17	16.5%
10	Office staff	4	3.9%
11	Statistician	1	0.9%
12	Secretary	1	0.9%
Total		103	100%

It was surprising that nearly half of the respondents were accounting managers or accounting staff rather than general or deputy general managers. One reason was that the survey was carried out in the name of the local government, which made top management of certain companies cautious about the purpose of the survey, suspecting that it was

actually concerned with turnover and taxation. As a result, many accounting managers/staff were asked to answer the questions instead.

Of the 103 respondents, the longest service period with a joint venture was 11 years, and the shortest was under one year. There was only one expatriate a Japanese general manager of a joint venture restaurant, who spoke some Mandarin. Table 5.1-3 details the length of service among respondents.

**Table 5.1-3 Number of Years of Service**

No. of Years with JV	No. of Respondents	Percentage
11	1	0.9%
10	1	0.9%
9	4	3.9%
8	4	3.9%
7	2	1.9%
6	13	12.6%
5	19	18.4%
4	16	15.5%
3	16	15.5%
2	12	11.6%
1	10	9.7%
Less than 1	3	2.9%
Total	103	100%

In the cases where some respondents had been with joint ventures for only one or two years, it was possible that some details may be missing and this would be compensated for by in-depth interviews. Full details of all the 103 respondents are recorded in Appendix V.

### 5.1.3 Age of Joint Ventures

Of the 103 joint ventures surveyed, 12 were set up in the 1980s (between 1985 and 1989), and the majority (88 cases) were established after 1992 – the year when foreign direct investment in China entered a new stage of accelerated development. As Table 5.1-4

showed, the average age of joint ventures surveyed was 4.9 years. The distribution of joint venture's age suggested that a comparison of internal changes in joint ventures established in the 1980s, the early 1990s, the middle 1990s and the late 1990s could be meaningful for the study of joint venture evolution.

**Table 5.1-4 Age of Joint Ventures**

Time of Establishment	Years of Operation	Number of Enterprises	Percentage
1985	13	1	0.9%
1986	12	1	0.9%
1988	10	4	3.9%
1989	9	6	5.8%
1990	8	3	2.9%
1991	7	4	3.9%
1992	6	12	11.7%
1993	5	25	24.3%
1994	4	16	15.5%
1995	3	18	17.5%
1996	2	9	8.7%
1997	1	3	2.9%
1998	Less than 1	1	0.9%
Total	-	103	100%

#### 5.1.4 Origins of Joint Venture Partners

##### (1) Chinese Partners

According to local official statistics,<sup>1</sup> nearly 25% of Chinese joint venture partners in Dalian was from the private sector and established after 1995 when the ban on private sector involvement in joint venture projects was lifted. Among the 103 joint ventures surveyed, 84 Chinese partners were state-owned enterprises (81.6%); the remaining 19 were from privately owned enterprises (18.4%). This result was a broadly reflection of the official encouragement for private sector involvement in joint ventures. One can expect more involvements of private Chinese partners in foreign direct investment

<sup>1</sup> Dalian Economic Development Statistics, May, 1998. Provided by the Dalian Foreign Trade and Economic Cooperation Committee.

activities in the future. At the same time, because the Chinese government has less control over the private sector as compared to state-owned sector, it is reasonable to assume that more strategic changes will result. This issue is addressed further in the personal interviews.

## (2) Overseas Joint Venture Partners

Among the 103 joint ventures surveyed, investors from Japanese, Hong Kong, and Korean had the highest number of established joint ventures. Dalian's geographic closeness to Japan and its historical link with Japan have undoubtedly influenced this distribution. This result was in line with the official statistics<sup>2</sup> shown in Table 5.1-5. However, a senior Dalian government official<sup>3</sup> privately explained that the number of South Korean investors had probably overtaken the Japanese in recent years and had been in the first position in Dalian. But during and after the Asian financial crisis, about 500 South Korean partners had withdrawn.

**Table 5.1-5 Country Origins of Overseas Partners in Dalian**

No.	Country origins of overseas partners	Number of joint venture projects
1	Hong Kong (China)	2132
2	Japan	1639
3	USA	916
4	Korea	827
5	Taiwan (China)	599
6	Canada	112
7	Macao	48
8	European countries	262
9	Others	214
	Total	7054

Source: Statistics of Foreign Direct Investment, May 1998, Planning Department of the Dalian Foreign Trade and Economic Cooperation Committee.

<sup>2</sup> Statistics of Foreign Direct Investment, May 1998, the Planning Department of the Dalian Foreign Trade and Economic Cooperation Committee.

<sup>3</sup> He is deputy director of the Dalian Foreign Trade and Economic Cooperation Committee.

## 5.2 External Variables

The following section reports findings about external influences upon joint ventures. They were derived from the responses to the question 'Do the changes in China's transitional economy influence foreign direct investment, particularly for joint ventures?'. Respondents were offered a range of possible answers, as derived from the literature review and exploratory study, and asked to mark 'the factors which had the greatest effect on joint ventures'. Table 5.2-1 showed the detailed responses to this question.

From the distribution of the responses, 'frequent changes in China's foreign direct investment policy' was ranked as having the greatest impact on joint ventures (78.6%) followed by 'changes in bureaucratic systems' (74.7%) and 'further opening up of domestic market' (49.5%). The perceived 'interference by Chinese parent company' received only 12 responses (11.6%). The other perceived impacts in the 1980s such as 'political instability' and 'difficulty with repatriating profit to overseas partner's home country' received no responses.

**Table 5.2-1 External Influences on Joint Venture Activities**

No	Influential external impacts on joint venture activities	Responses	%
1	Frequent changes in foreign direct investment policy	81	78.6%
2	Changes in bureaucratic systems	77	74.7%
3	Further opening up of domestic markets	51	49.5%
4	Difficulties in obtaining high-quality raw materials or components from China's domestic markets	39	37.8%
5	Interference from Chinese parent company	12	11.6%
6	Inefficient infrastructure	4	3.8%
7	Political instability	0	-
8	Difficulty in repatriating profits to overseas partner's home country	0	-

### 5.3 Internal Variables

The following section deals with internal variables under the headings of joint venture strategies, ownership, structure, and operational management issues.

#### 5.3.1 Joint Venture Strategies

Joint venture strategies derived from the main motivations of both Chinese and overseas partners when setting up joint ventures. It has been established in Chapter Two that compromise often has to be made to embrace each partner's strategic considerations. In contrast to the literature, the top three strategies that emerged in the survey were 'long-term commitment in China', 'further expansion of domestic sales', and 'making profits for parent companies'. Surprisingly, 'to export joint venture products to overseas markets', which used to be the priority of Chinese government for setting up joint ventures, was not on the list (Table 5.3.1-1).

**Table 5.3.1-1 Joint Venture's Comprehensive Strategies**

(Total survey respondents: 103)

Joint Venture Strategies	No. of Respondents	Percentage
Long-term commitment in China	76	74%
Further expansion of domestic sales	75	72%
Making profits for parent companies	69	67%
Raw material localisation	63	61%
Personnel localisation	49	48%
Control of overseas sales	54	52%
Desire to be viewed as a truly Chinese company	52	50%

#### (1) Chinese Partners' Perspective

Table 5.3.1-2 indicates that the three major strategies were 'to obtain foreign capital', 'to export joint venture products' and 'to obtain advanced technology'. Sixty-seven respondents (74%) answered that the major strategies of Chinese partners were to export their products and earn hard currency.



**Table 5.3.1-2 Chinese Partners' Strategies****(Total survey respondents: 103)**

Motives for setting up joint ventures	No. of respondents	Percentage
To obtain foreign capital	69	67%
To export products and earn hard currency	67	65%
To obtain foreign technology and management skills	62	60%
To create employment opportunities	32	31%
To obtain advanced foreign products or foreign brand names	24	23%

**(2) Overseas Partners' Perspective**

Table 5.3.1-3 indicates that 60 respondents (58%) stated that the overseas partners' strategy for forming joint ventures was to enter China's domestic market. However, the Chinese government has strongly encouraged joint ventures to export. This would raise the question of whether mutual satisfaction exists.

**Table 5.3.1-3 Overseas Partners' Strategies****(Total survey respondents: 103)**

Motives for setting up joint ventures	No. of respondents	Percentage
Entering China's domestic markets	60	58%
To comply with Chinese government policy	55	53%
To access Chinese government incentives	46	45%
Seeking low production costs	28	27%
Setting up an export base in China	18	17%

Comparisons indicate that joint ventures' comprehensive strategies were an outcome of compromise. In general, the underlying joint venture strategies match the 'third stage strategy pattern' of Shaw and Meier's (1993) study. This implies that the majority of Chinese and overseas partners in the joint ventures surveyed had completed their experimental stage and were moving towards long-term commitment.

### 5.3.2 Joint Venture Ownership Structure

Table 5.3.2-1 shows that in 49 cases the majority stake in the venture was held by the overseas partner, and in 42 cases it was held by the Chinese partner. There were only 12 cases with split equity ownership (50/50 equity). Thirty-four joint ventures had their ownership shares formally transferred between 1996 and 1998. Details of the 34 cases of ownership share transfer including changes in the ownership structure, venture age, percentage transferred, and country origin of overseas partners are given in Appendix 6.

**Table 5.3.2-1 Summary of Ownership Structure of Joint Ventures Surveyed**

<b>Ownership distribution status</b>	<b>Chinese partners</b>	<b>Overseas partners</b>
More than 50% stakes	42	49
Less than 50% stakes	49	42
50/50 equity ownership	12	12
Total	103	103

Table 5.3.2-2 shows the origins of overseas partners. There was a clear trend of the ownership moving from Chinese to overseas partners, with only 5 cases where Chinese partners increased their stakes. In the remaining 29 cases, either the overseas partners gained the dominant ownership position, or (in 15 cases) the overseas partners already wholly owned the joint venture.

Most of the 34 ownership transfer cases involved Japanese, Korean and overseas Chinese partners. There was only one case, which involved a USA partner. This implies that joint ventures with Far East and offshore Chinese partners were more active in ownership share transfer than those of Western partners.

**Table 5.3.2-2 Overseas Partners with Officially Recorded Ownership Transfer**

Overseas partner	Number of ventures	Wholly owned	Stake increased	Stake decreased
Japan	17	7	6	4
Hong Kong	7	3	3	1
Korea	6	4	2	-
Taiwan	2	-	2	-
Singapore	1	-	1	-
USA	1	1	-	-
Total	34	15	14	5

Table 5.3.2-3 shows the times at which the 34 ownership share transfer cases took place. All ownership share transfers took place between 1996 and 1998, when state policy on foreign direct investment was further relaxed.

**Table 5.3.2-3 Time of Ownership Shares Transferred**

Number of ventures	Time of ownership transfer	Venture age when ownership transferred	Percentage
3	3 cases in 1997	9 years	8.6%
2	1 case in 1996 and 1 case in 1997	8 years	5.7%
2	1 case in 1996 and 1 case in 1997	7 years	8.6%
1	1 case in 1997	6 years	2.9%
5	2 cases in 1997 and 3 cases in 1998	5 years	14.2%
6	3 cases in 1997 and 3 cases in 1998	4 years	17.1%
8	4 cases in 1997 and 4 cases in 1998	3 years	22.6%
5	2 cases in 1997 and 3 cases in 1998	2 years	14.2%
1	1 case in 1998	1 years	2.9%
1	1 case in 1998	3 months	2.9%
34	-	-	99.7%

In these ownership share transfer cases, the majority of ventures (24 cases) transferred ownership shares after two to five years in operation. Eight ventures changed their

ownership shares after six to nine years. The speediest ownership share transfer took place only three months after the venture was set up. Among the 103 joint ventures surveyed, 12 ventures were established in the 1980s and seven of them transferred their ownership shares. Five of these seven ventures had been converted into wholly foreign-owned enterprises, implying a strong trend on the part of the early entrants towards wholly owned ventures.

According to local official information<sup>4</sup>, it was only in 1996 that the Dalian municipal government started to allow overseas partners to have a dominant ownership share. Hence, the ownership transfers were mainly a response to changes in China's foreign direct investment policy. It seems that joint ventures established in the 1980s had a relatively longer period before they conducted ownership transfer than that of joint ventures established in the 1990s. Reasons for the ownership transfers did not come up clearly in the questionnaire survey. They will be discussed in the next chapter.

### **5.3.3 Joint Venture Operational Management**

#### **(1) Joint Venture Performance**

Questionnaire surveys often encounter certain negative responses from local government departments and joint venture managers. Any question regarding joint venture performance in China is sensitive, and thus likely to generate less reliable data. Because of this, questions regarding joint venture performance were designed to be as general as possible. Table 5.3.3-1 shows that only 38 ventures (37%) reported that they are making profits, 6 ventures (5.8%) were just breaking even, and 59 ventures (57%) were unprofitable.

It was not entirely surprising that 57% of the joint ventures surveyed were not profitable. This was in line with the literature, which indicates that in half of China-based joint ventures, neither the Chinese nor the overseas partners were satisfied with the operational performance of the venture.

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<sup>4</sup> Secretary-General of the Dalian Association of Foreign Invested Enterprises, August 1998.

**Table 5.3.3-1 Financial Performance**

Venture performance status	No. of ventures	Percentage
Profitable	38	37%
Break-even	6	5.8%
Unprofitable	59	57%
Total respondents:	103	-

Table 5.3.3-2 reports that, apart from one venture, which had been operating for less than one year, the other 102 ventures had been operating for more than two years. Only 38 ventures (36.8%) were profitable, six ventures (5.8%) were break-even, and 59 ventures (57.2%) were unprofitable. Among the 59 unprofitable ventures, 42 had been operating for between five and 14 years and the other 17 unprofitable ventures had been in operation for less than five years.

**Table 5.3.3-2 Financial Performance Status Versus the Age of Joint Ventures**

Setting up time	No. of ventures	Age of ventures	Profitable	Break-even	Unprofitable
1985	1	14	-	-	1
1986	1	13	-	-	1
1988	4	11	2	-	2
1989	6	10	3	-	3
1990	3	9	1	1	1
1991	4	8	-	-	4
1992	12	7	7	-	5
1993	25	6	8	2	15
1994	16	5	9	-	7
1995	18	4	4	2	12
1996	9	3	2	1	6
1997	3	2	2	-	1
1998	1	0.5	-	-	1
Total	103	-	38	6	59

Table 5.3.3-3 presents a cross-tabular comparison of the 38 profitable ventures in terms of venture sector, age, ownership structure, ownership share changes and the origin of overseas partners as well as financial performance. 37 of the 38 ventures (97.3%) were manufacturing firms and one (2.6%) was a property development firm. Most of them had been in operation for between 4 and 7 years.

In contrast to the previous studies, joint ventures with Chinese partners holding more than a 50% stake (16 cases) outperformed ventures with overseas partners holding more than a majority stake (9 cases). 12 of the 38 profitable ventures had their ownership share changed, of which nine ventures transferred their ownership shares from Chinese to overseas partners and only three ventures had ownership shares transferred to Chinese partners. This implies that overseas partners were more active than Chinese partners in gaining a greater ownership share.

Table 5.3.3-3 Profitable Joint Ventures

<b>Profitable Ventures</b>			
<b>Industry Sectors</b>	<b>Number of Ventures</b>	<b>Percentage</b>	
Manufacturing	37	97.3%	
Property development	1	2.6%	
<b>Total</b>	<b>38</b>		
<b>Operation Age (years)</b>	<b>Number of Ventures</b>	<b>Percentage</b>	
10	2	5.3%	
9	5	13.1%	
8	1	2.6%	
7	1	2.6%	
6	6	15.8%	
5	7	18.4%	
4	9	23.7%	
3	4	10.5%	
2	1	2.6%	
1	2	5.3%	
<b>Total</b>	<b>38</b>		
<b>Ownership Structure</b>	<b>Number of Ventures</b>	<b>Percentage</b>	
Chinese partner holding more than 50% stakes	16	42.1%	
Overseas partner holding more than 50% stakes	9	23.7%	
Overseas partner wholly owned	7	18.4%	
50/50 equity ownership	6	15.8%	
<b>Total</b>	<b>38</b>		
<b>Changes in Ownership Structure</b>	<b>Number of Ventures</b>	<b>Percentage</b>	
Overseas shares increased but still less than 50%	1	2.6%	
Overseas shares increased to more than or = 50%	1	2.6%	
Overseas shares increased to 100%	7	18.4%	
Chinese shares increased to more than or = 50%	3	7.9%	
Ownership shares remain unchanged	26	68.4%	
<b>Total</b>	<b>38</b>		
<b>Foreign Partner</b>	<b>Profitable Ventures</b>	<b>Ownership Shares Changed</b>	<b>Ownership Shares Unchanged</b>
Japan	19	6	13
Hong Kong	12	3	9
USA	2	1	1
Korea	1	1	
Singapore	1	1	
Taiwan	1		1
Germany	1		1
Sweden	1		1
<b>Total</b>	<b>38</b>	<b>12</b>	<b>26</b>

Table 5.3.3-4 displays a cross-tabular presentation of the 6 break-even ventures, of which five were manufacturing ventures and 1 was a service firm. The ages of these six ventures were between two and eight years, and two ventures had ownership share transferred from Chinese to overseas partners.

**Table 5.3.3-4 Break-even Joint Ventures**

<b>Break-even Ventures</b>			
<b>Industry Sectors</b>	<b>Number of Ventures</b>	<b>Percentage</b>	
Manufacturing	5	83.3%	
Property development	0		
Hotel/restaurant	0		
Services	1	16.6%	
<b>Total</b>	<b>6</b>		
<b>Operation Age (years)</b>	<b>Number of Ventures</b>	<b>Percentage</b>	
8	1	16.6%	
5	2	33.3%	
3	2	33.3%	
2	1	16.6%	
<b>Total</b>	<b>6</b>		
<b>Ownership Structure</b>	<b>Number of Ventures</b>	<b>Percentage</b>	
Chinese partner holding more than 50% stakes	4	66.6%	
Overseas partner holding more than 50% stakes	2	33.3%	
<b>Total</b>	<b>6</b>		
<b>Changes in Ownership Shares</b>	<b>Number of Ventures</b>	<b>Percentage</b>	
Overseas shares increased but still less than 50%	1	16.7%	
Overseas shares increased to more than 50%	1	16.7%	
Ownership shares remain unchanged	4	66.6%	
<b>Total</b>	<b>6</b>		
<b>Foreign Partner</b>	<b>Profitable Ventures</b>	<b>Ownership Shares Changed</b>	<b>Ownership Shares Unchanged</b>
Japan	3	1	2
Hong Kong	1	1	
Taiwan	1		1
Germany	1		1
<b>Total</b>	<b>6</b>	<b>2</b>	<b>4</b>



Table 5.3.3-5 is a cross-tabular presentation of the 59 unprofitable ventures. Here too, manufacturing is the dominant sector. As far as the age of these unprofitable ventures is concerned, 31 ventures had been operating for between five and 13 years, while four ventures had been operating for more than 10 years. In comparison of ownership structure, there is almost no difference in terms of Chinese (22 cases) or overseas partners (23 cases) holding more than 50% stakes.

It was surprising that eight wholly foreign ventures converted from joint ventures were losing money. Of the 59 unprofitable ventures, 20 changed their ownership shares. Of these, 8 were ventures in which overseas partners gained more than a 50% stakes and eight were wholly owned by the overseas partners. This reflects that there had been active reconfiguration within these unprofitable ventures.

Table 5.3.3-5 Unprofitable Joint Ventures

<b>Unprofitable Ventures</b>			
<b>Industry Sectors</b>	<b>Number of Ventures</b>	<b>Percentage</b>	
Manufacturing	44	74.6%	
Property development	4	6.8%	
Hotel/restaurant	4	6.8%	
Services	7	11.8%	
<b>Total</b>	<b>59</b>		
<b>Operation Age (years)</b>	<b>Number of Ventures</b>	<b>Percentage</b>	
13	1	1.7%	
12	1	1.7%	
10	2	3.3%	
9	1	1.7%	
8	1	1.7%	
7	3	5.0%	
6	6	10.1%	
5	16	27.1%	
4	7	11.8%	
3	12	20.3%	
2	6	10.1%	
1	2	3.3%	
Less than 1 year	1	1.7%	
<b>Total</b>	<b>59</b>		
<b>Ownership Structure</b>	<b>Number of Ventures</b>	<b>Percentage</b>	
Chinese partner holding more than 50% stakes	22	37.2%	
Overseas partner holding more than 50% stakes	23	38.9%	
Overseas partner wholly owned	8	13.5%	
50/50 equity ownership	6	10.1%	
<b>Total</b>	<b>59</b>		
<b>Changes in Ownership Shares</b>	<b>Number of Ventures</b>	<b>Percentage</b>	
Chinese shares increased to more than or = 50%	3	5.0%	
Overseas shares increased to more than or = 50%	8	13.5%	
Overseas shares increased to 100%	8	13.5%	
Overseas shares increased but still less than 50%	1	1.7%	
Ownership shares remain unchanged	39	66.1%	
<b>Total</b>	<b>59</b>		
<b>Foreign Partner</b>	<b>Profitable Ventures</b>	<b>Ownership Shares Changed</b>	<b>Ownership Shares Unchanged</b>
Japan	21	10	11
Korea	9	5	4
Hong Kong	17	3	14
Taiwan	5	2	3
USA	6		6
Singapore	1		1
<b>Total</b>	<b>59</b>	<b>20</b>	<b>39</b>

Table 5.3.3-6 presents cross-tabular details of ventures with ownership shares transferred. There were 34 ventures with ownership shares transferred between partners, 32 of which were manufacturing firms and two were in the service sector. Among these 32 manufacturing ventures, 12 were profitable, two were just break-even and 18 were unprofitable, which could explain the reason for ownership restructuring.

After ownership restructuring, the number of ventures with Chinese partners holding majority stakes (more than 50%) fell from 11 to eight; the number of ventures with overseas partners holding majority stakes (more than 50%) increased from 13 to 24 (including 15 wholly foreign-owned ventures) and the number of ventures with 50/50 equity fell from 10 to two. This further confirmed that overseas partners had been actively gaining ownership shares with an view to gaining complete control over their joint ventures.

The country origins of the leading overseas partners gaining majority stakes were Japan, Hong Kong, South Korea, USA and Singapore.

Table 5.3.3-6 Joint Ventures with Ownership Share Transferred

<b>Ventures with Ownership Shares Transferred</b>				
<b>Industry Sectors</b>	<b>Profitable Ventures</b>	<b>Breakeven Ventures</b>	<b>Unprofitable Ventures</b>	<b>Total</b>
Manufacturing	12	2	18	32
Services			2	2
<b>Total</b>	12	2	20	34
<b>Operation Age (years)</b>				
<b>Operation Age (years)</b>	<b>Profitable Ventures</b>	<b>Breakeven Ventures</b>	<b>Unprofitable Ventures</b>	<b>Total</b>
10	2		1	3
9	3			3
8		1		1
7			1	1
6			2	2
5	1		4	5
4	3		5	8
3	2		5	7
2	1	1	2	4
1				0
<b>Total</b>	12	2	20	34
<b>Previous Ownership Structure</b>				
<b>Previous Ownership Structure</b>	<b>Profitable Ventures</b>	<b>Breakeven Ventures</b>	<b>Unprofitable Ventures</b>	<b>Total</b>
Chinese partner holding more than 50% stakes	3	2	6	11
Overseas partner holding more than 50% stakes	3		10	13
50/50 equity ownership	6		4	10
<b>Total</b>	12	2	20	34
<b>Existing Ownership Structure</b>				
<b>Existing Ownership Structure</b>	<b>Profitable Ventures</b>	<b>Breakeven Ventures</b>	<b>Unprofitable Ventures</b>	<b>Total</b>
Chinese partner holding more than 50% stakes	3	1	4	8
Overseas partner holding more than 50% stakes (including wholly foreign-owned ventures)	7	1	16	24
50/50 equity ownership	2			2
<b>Total</b>	12	2	20	34
<b>Foreign Partner</b>				
<b>Foreign Partner</b>	<b>Profitable Ventures</b>	<b>Breakeven Ventures</b>	<b>Unprofitable Ventures</b>	<b>Total</b>
Japan	6	1	10	17
Hong Kong	3	1	3	7
Korea	1		5	6
USA	1			1
Singapore	1			1
Taiwan			2	
<b>Total</b>	12	2	20	34

Table 5.3.3-7 gives cross-tabular details of ventures without ownership share transfers, with a view to comparing them with ventures that had changed their ownership shares. There were 69 ventures surveyed experiencing no ownership share transfers between venture partners. Manufacturing was the dominant sector, with 54 ventures, and the other 15 were from the property development, hotel/restaurant and service sectors.

Of these 69 ventures, 26 were profitable, 4 were break-even and 39 were unprofitable. Looking at the age of these ventures, the 26 profitable ventures had been in operation for between one and nine years. It was surprising that the 39 unprofitable ventures had been operating for one to 13 years. The origin of the overseas partners of these 39 unprofitable ventures were Japanese (12 ventures), Hong Kong Chinese (14 ventures), South Korean (3 ventures), Americans (6 ventures), Singapore (1 venture) and Taiwan (3 ventures). This implies a situation in which overseas partners actively restructure their joint ventures to gain controlling stakes. As mentioned earlier, this situation is potentially unstable.

Table 5.3.3-7 Joint Ventures with Ownership Shares Unchanged

<b>Ventures with Ownership Shares Unchanged</b>				
<b>Industry Sectors</b>	<b>Profitable Ventures</b>	<b>Breakeven Ventures</b>	<b>Unprofitable Ventures</b>	<b>Total</b>
Manufacturing	25	3	26	54
Property development	1		4	5
Hotel/restaurant			4	4
Services		1	5	6
<b>Total</b>	<b>26</b>	<b>4</b>	<b>39</b>	<b>69</b>
<b>Operation Age (years)</b>	<b>Profitable Ventures</b>	<b>Breakeven Ventures</b>	<b>Unprofitable Ventures</b>	<b>Total</b>
13			1	1
12			1	1
10			1	1
9	2		1	3
8	1		1	2
7	1		2	3
6	6		4	10
5	6	2	12	20
4	6		2	8
3	2	2	7	11
2			5	5
1	2		1	3
0.5			1	1
<b>Total</b>	<b>26</b>	<b>4</b>	<b>39</b>	<b>69</b>
<b>Ownership Structure</b>	<b>Profitable Ventures</b>	<b>Breakeven Ventures</b>	<b>Unprofitable Ventures</b>	<b>Total</b>
Chinese partner holding more than 50% shares	13	2	20	35
Overseas partner holding more than 50% shares	9	2	13	24
50/50 equity ownership	4		6	10
<b>Total</b>	<b>26</b>	<b>4</b>	<b>39</b>	<b>69</b>
<b>Foreign Partner</b>	<b>Profitable Ventures</b>	<b>Breakeven Ventures</b>	<b>Unprofitable Ventures</b>	<b>Total</b>
Japan	13	2	12	27
Hong Kong	9		14	23
Korea			3	3
USA	1		6	7
Singapore			1	1
Taiwan	1	1	3	5
Germany	1	1		2
Sweden	1			1
<b>Total</b>	<b>26</b>	<b>4</b>	<b>39</b>	<b>69</b>

**(2) General Managers**

Sixty-eight ventures had Chinese general managers (66%) and in the remaining 35 ventures, the general managers were expatriates (34%).

▫ **Senior Management Shifted from Expatriates to the Chinese**

Respondents were asked (1) who was the general manager in the early stage of the joint venture and (2) who was the general manager now. Table 5.3.3-8 reports the details of senior management arrangements both in the first and in the present stages.

**Table 5.3.3-8 General Managers**

Stage of Joint Ventures	Number of Chinese General Managers	Number of Expatriate General Managers	Total
In the early stage	57	46	103
At present	68	35	103

The table shows a general shift of general managers from being expatriates to the Chinese. Between 1996 and 1998, 11 expatriate general managers were replaced by local Chinese managers. The details of the 11 joint ventures where this happened are shown in Table 5.3.3-9.

**Table 5.3.3-9 Expatriate General Managers Replaced by Local Chinese Managers**

No.	Country Origins of Former General Manager	Country Origins of Existing General Manager	Overseas Partner's Original Ownership Shares	Overseas Partner's Present Ownership Shares
1	Korea	China	70%	100%
2	Japan	China	65%	85%
3	Japan	China	51%	80%
4	Japan	China	70%	70%
5	USA	China	70%	70%
6	Korea	China	60%	60%
7	Taiwan	China	50/50	50/50
8	Korea	China	25%	25%
9	Japan	China	65%	35%
10	Japan	China	50/50	15%
11	HK Chinese	China	35%	35%

Among these 11 cases, one Hong Kong and two Japanese partners lost their general manager positions owing to reduced ownership stakes. In another five cases, expatriate general managers were replaced by local Chinese managers without a change in the ownership structure. In the other three cases the overseas investors gained a greater ownership stake. This indicates a trend for joint ventures to develop an indigenous senior management team in order to reduce the overall costs and handle any cross-cultural management problems.

▪ **Senior Management Shifted from the Chinese to Expatriates**

Of the 35 joint ventures that had expatriate general managers, four had brought in expatriates to replace Chinese general managers (Table 5.3.3-10).

**Table 5.3.3-10 Chinese General Managers Replaced by Expatriates**

Number of JVs	Country origins of overseas partner	Former general manager	Overseas partner's previous stake	Existing general manager	Overseas partner's existing stake
1	Hong Kong	Chinese	40%	HK Chinese	80%
1	Japan	Chinese	51%	Japanese	93%
1	Japan	Chinese	40%	Japanese	100%
1	Hong Kong	Chinese	50%	HK Chinese	100%

Obviously these four joint ventures all changed the ownership structure. Two had gained 80% and 90% stakes from their Chinese partners and the other two were currently wholly owned. This clearly indicates that, although there was a trend for joint ventures to develop an indigenous senior management team, once gained complete control over a joint venture, the overseas partner tended to bring in an expatriate general manager.

**(2) Changes in Expatriate Staff**

Because of their high costs compared with local Chinese staff, the number of expatriate staff was a frequent source of friction between Chinese and overseas partners during both



the negotiation and operational stages. The respondents were therefore asked to say how many expatriate staff was working in their joint ventures in the early stage and currently. The number of expatriate staff was clearly declining, and many joint ventures did not have expatriate staff from the very beginning (Table 5.3.3-11):

**Table 5.3.3-11 Changes in the Number of Expatriate Staff**

Expatriate staff status	Number of joint ventures	Percentage
Number of expatriate staff unchanged	26	25.2%
Number of expatriate staff reduced	22	21.3%
Number of expatriate staff reduced to nil	12	11.6%
No expatriate staff from start	30	29.1%
Number of expatriate staff increased	13	12.6%
Total	103	-

There were 13 cases where the number of expatriate staff had increased. However, comparison of these 13 joint ventures where the ownership structure had changed further revealed that the overseas partners of all these 13 ventures had recently gained substantial stakes transferred from their Chinese partners. Eight overseas investors wholly owned the ventures – one Japanese, one American, and six Korean. This indicated that bringing back expatriate staff was a strategic action aimed at enforcing control over the wholly owned ventures.

### **(3) Changes in Organisational Structure**

Table 5.3.3-12 reports the existing status of the domestic sales force of the joint ventures. In the preparatory stage of this research, it was found that major changes in the organisational structure of China-based joint ventures focused on domestic sales, as joint ventures sought to establish their own sales forces. In the early stage, most China-based joint ventures relied principally on the sales force of the Chinese partner's parent company to increase the market share. The survey results showed that the situation had significantly changed. Ninety-six per cent now had their own domestic sales forces and

this indicated a major change in organisational structure as compared to the 1980s and the early 1990s.

**Table 5.3.3-12 Status of Domestic Sales Force**

Operational stage	In the early stage	At present
Joint venture with domestic sales force	4 (3.8%)	91 (88.4%)
Joint venture without domestic sales force	99 (96.2%)	12 (11.6%)
Total	103	103

#### **(4) Changes in Workforce Recruitment**

Previous studies (Brown 1986; Davidson 1987; Campbell 1989; Shenkar 1990) showed that workforces were mainly transferred from the Chinese partner's parent company. Only a small number of staff was recruited from local job centres in the 1980s and the early 1990s. The workforce recruited from Chinese parent companies brought with it problems such as overstaffing, poor production quality, and low productivity.

The new trend was towards using local job centres rather than Chinese partner's parent company. The number of joint ventures that recruited both management staff and workers from the Chinese partner's parent company was declining. Forty-eight out of 103 joint ventures recruited management staff directly from the local job centres from the outset. In another 39 cases, recruitment had been switched to the local job centres. Only one joint venture switched back from local job centre to the Chinese partner's parent company (Table 5.3.3-13). The personnel manager of this company was contacted via telephone after the survey and asked the reason for this. He claimed that it was because of the availability of skilled technical staff in the Chinese partner's parent company.

**Table 5.3.3-13 Management Staff Recruitment**

<b>Management Staff Recruitment</b>	<b>Number of Ventures</b>
From local recruitment agencies only	48
From Chinese parent company to local recruitment agencies entirely	21
From Chinese parent company to local recruitment agencies partly	18
From Chinese parent company only	15
From local recruitment agency to Chinese partner's parent company	1
Total	103

Table 5.3.3-14 shows the recruitment structure. In contrast to the previous studies (Brown 1986; Davidson 1987; Campbell 1989; Shenkar 1990), 93 had completely or partly switched worker recruitment. Only eight had completely recruited their workers from the Chinese partner's parent company. There were also two cases where the shift had been reversed – from the local job centres to the Chinese partner's parent company.

**Table 5.3.3-14 Worker Recruitment**

<b>Worker Recruitment</b>	<b>Number of Ventures</b>
From local recruitment agencies only	61
From Chinese parent company to local recruitment agencies entirely	14
From Chinese parent company to local recruitment agencies partly	18
From Chinese parent company only	8
From local recruitment agencies to Chinese parent company	2
Total	103

### **(5) Changes in Employee Benefits**

In the 1980s, a major difference between Chinese and most overseas partners was the provision of fringe benefits such as housing, free working meals as well as uniforms for employees, which caused disputes between venture partners. As noted in Chapter Three, Chinese employees took it for granted that housing, corporate uniforms and free meals would be provided by employers. However, this was not always accepted by overseas

partners. As a result, lacking of substantial commitment on the part of the overseas partner to provide benefits has led to less employee loyalty in joint ventures and wholly foreign-owned enterprises. In this survey, interesting changes were found to have happened and most overseas partners in Dalian now provided housing or a housing allowance (Table 5.3.3-15), corporate uniforms (Table 5.3.3-16) and free meals (Table 5.3.3-17) for Chinese employees. This implies that joint venture managers, and overseas managers in particular, have been gradually adapting Chinese business culture in order to increase employee loyalty and workforce stability.

**Table 5.3.3-14 Worker Recruitment**

<b>Worker Recruitment</b>	<b>Number of Ventures</b>
From local recruitment agencies only	61
From Chinese parent company to local recruitment agencies entirely	14
From Chinese parent company to local recruitment agencies partly	18
From Chinese parent company only	8
From local recruitment agencies to Chinese parent company	2
Total	103

**Table 5.3.3-15 Joint Venture Benefits (Employee Housing)**

<b>No. of Ventures</b>	<b>In the Early Stage</b>	<b>At Present</b>
43	No housing/housing allowance	Housing provided
42	No housing/housing allowance	Housing allowance provided
18	No housing/housing allowance	No housing/housing allowance
103	-	-

**Table 5.3.3-16 Joint Venture Benefits (Corporate Uniform)**

Overseas Partners	No. of Companies	Uniforms Provided	Do not Provide Uniforms
Japanese	43	38	5
Hong Kong Chinese	30	24	6
Korean	10	8	2
USA	8	6	2
Taiwanese	7	6	1
Singaporean	2	2	-
German	2	2	-
Swedish	1	-	1
Total	103	86	17

**Table 5.3.3-17 Joint Venture Benefits (Employee meals)**

Operation stage	Provide 3 meals	Provide 2 meals	Provide 1 meal	Meal allowance	No meal
In the early stage	18	4	56	17	8
At present	29	4	50	19	1

### (6) Driving Forces for Changes in Joint Ventures

Simply asking what were the driving forces for the changes was too general to generate meaningful data, and would be difficult for respondents to give answers. Taking consideration of this fact, a list of potential external and internal driving forces for changes in joint ventures was provided for respondents to tick. Table 5.3.3-18 reports the feedbacks. With regard to the former, 'frequent changes in China's foreign direct investment policy' was ranked as the first driving force for changes in joint ventures (81 responses – 78.6%) followed by 'bureaucratic systems' (77 responses – 74.7%) and 'limitations of domestic market' (51 responses – 49.5%).

External driving factors, such as 'political instability' and 'difficulty in repatriating profits to overseas partner's home country, used to concern overseas investors the most in the 1980s and the early 1990s, but attracted zero response in this survey. The factor 'inefficient infrastructure' attracted only 4 responses out of 103 joint ventures.

**Table 5.3.3-18 Driving Forces for Changes in Joint Ventures****(Total respondents: 103)**

External Driving Forces	Responses	%	Internal Driving Forces	Responses	%
Frequent changes in foreign direct investment policy	81	78.6%	Different management styles between Chinese and overseas partners	68	66%
Bureaucratic system	77	74.7%	Changes in ownership structure	66	64%
Limitations of domestic markets	51	49.5%	Transfer pricing	59	57.2%
Difficulties in obtaining high quality raw materials or components from domestic sources	39	37.8%	Poor working relationship between Chinese and overseas managers	52	50.4%
Interference by Chinese parent company	12	11.6%	Difficulty in recruitment of qualified Chinese management staff	48	46.6%
Inefficient infrastructure	4	3.8%	Too much effort required to deal with government departments	31	30%
Political instability	0	-	Inefficiency of Chinese workers	23	22.3%
Difficulty in repatriating profits to overseas partners' home country	0	-	Difficulty in communications	2	1.9%
			Difficulty in controlling quality	1	0.9%

With regard to the internal driving forces for changes, the most frequently cited were 'different management styles between Chinese and overseas partners' (68 responses – 66%), 'changes in ownership structure' (66 responses – 64%), 'transfer pricing' (59 responses – 57.2%), 'poor working relationship between Chinese and overseas managers' (52 responses – 50.4%), difficulty in recruitment of qualified Chinese management staff (48 responses – 46.6%) and 'too much efforts required to deal with government departments' (31 responses – 30%). The ticking of 'inefficiency of Chinese workers', 'difficulty in communications' and 'difficulty in controlling quality of products' which

were the major concerns for venture managers in the 1980s and the early 1990s was 23, two and one respectively. This indicated that overseas partners' concerns in the 1980s and the early 1990s were no longer problems.

#### **5.4 Conclusion**

The presentation of the survey findings and the cross-tabularisation have shown that there were significant changes in Dalian-based joint ventures in terms of corporate strategies, ownership structure and operational management. The survey findings indicated that to position themselves better, joint venture partners initiated internal changes in response to external 'changes' caused by China's economic transition. The most significant finding was that ownership transfers in Dalian-based joint ventures were mainly made from Chinese partners to overseas partners. This implied potential changes in bargaining powers between joint venture partners, a topic that is to be addressed further in Chapter Six.

## Chapter 6                      Personal Interview Results

### 6.0 Introduction

Chapter Four stressed the importance of using qualitative research methods to complement the information collected through the questionnaire survey. This chapter reports the results of 50 in-depth personal interviews, which were carried out with a view to gaining an understanding of (1) the impact of changes in China's business environment surrounding state control over foreign direct investment, (2) changes at national/regional levels and joint venture level, and (3) the outlook of foreign direct investment as viewed by Dalian government officials, Chinese and overseas venture partners.

### 6.1 Sample of Personal Interviews

From 6<sup>th</sup> June 1998 to 6<sup>th</sup> September 1998, 50 interviews were conducted with Dalian government officials, and Chinese and overseas joint venture managers. As noted in Chapter Four, I was introduced as a personal friend of the Mayor<sup>1</sup> by a deputy director<sup>2</sup> of the Dalian Municipal Foreign Affairs Office to the Dalian Foreign Trade and Economic Cooperation Committee. This was to emphasize the official affiliation of the joint questionnaire survey. By contrast for the interviews, less emphasis was placed on official affiliations, rather, I was introduced as an independent overseas PhD student with personal support from the Mayor. The implication is that any assistance from Chinese and expatriate managers with this research would be regarded as doing a favour for the local authorities and also as a chance to enhance the relationship between these joint venture managers and the local authorities. Hence, the atmosphere of all the interviews was informal, co-operative and very friendly.

The interviews fell into three major groupings. The first group consisted of 13 officials at three levels of the Dalian government. Among the 13 officials, two were senior municipal

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<sup>1</sup> I used to work for the Mayor between 1988 and 1995 in Dalian Foreign Affairs Office.

<sup>2</sup> Official 2, who was the author's immediate superior between 1988 and 1995.



officials, five represented the five different district level authorities<sup>3</sup>, and six were from the Foreign-Invested Enterprise Division of the Dalian Economic and Technological Development Zone, which hosted most foreign-invested enterprises in the region. The second group consisted of seven expatriate managers who were available at that time. Chinese managers made up the third and biggest group, with 30 interviews.

For reasons of confidentiality, the officials are referred to as Official 1 to Official 13. Joint venture managers are referred to as Overseas Managers one to seven and Chinese Managers one to 30, plus their titles (e.g., general manager, deputy general manager, or department manager) and the name of the company.

### **6.1.1 Dalian Government Officials**

Interviews with local government officials responsible for foreign direct investment activities offer an insight into official perspectives on the impacts of changes in China on Dalian's foreign direct investment, and joint ventures in particular.

Separate interviews were arranged by the Dalian Municipal Commission of Foreign Trade and Economic Cooperation. This enabled me to talk with 13 government officials (Table 6.1-1) from seven relevant departments of the Dalian municipal government, which oversee foreign direct investment activities.

Interview questions for local officials were all open-ended focusing on the role of local government in foreign direct investment, changes in China's business environment, changes at national/regional levels in the transitional economy, and changes at the joint venture level.

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<sup>3</sup> There are six districts in Dalian. One district was ruled out by the author because there are few foreign-invested projects there.

**Table 6.1-1 Summary of Dalian Officials Interviewed**

No	Position	Government Department
Official 1	Deputy director	Dalian Municipal Commission of Foreign Trade and Economic Cooperation
Official 2	Deputy director	Dalian Municipal Foreign Affairs Office
Official 3	Division director	Foreign-Invested Enterprise Division of Dalian Economic and Technology Development Zone
Official 4	Deputy division director	Foreign-Invested Enterprise Division of Dalian Economic and Technology Development Zone
Official 5	Section chief	Foreign-Invested Enterprise Division of Dalian Economic and Technology Development Zone
Official 6	Section chief	Foreign-Invested Enterprise Division of Dalian Economic and Technology Development Zone
Official 7	Section chief	Foreign-Invested Enterprise Division of Dalian Economic and Technology Development Zone
Official 8	Section chief	Foreign-Invested Enterprise Division of Dalian Economic and Technology Development Zone
Official 9	Secretary general	Dalian Zhongshan District Sub-Council of the China Council for Promotion of International Trade
Official 10	Deputy director	Dalian Ganjingzi District Committee of Foreign Trade and Economic Cooperation
Official 11	Deputy director	Dalian Shahekou District Committee of Foreign Trade and Economic Cooperation
Official 12	Deputy director	Dalian Zhongshan District Committee of Foreign Trade and Economic Cooperation.
Official 13	Section chief	Dalian Ganjingzi District Committee of Foreign Trade and Economic Cooperation

### 6.1.2 Expatriate Managers

All the interviews with expatriate managers were pre-arranged by officials from Foreign-Invested Enterprises Administrative Departments at different levels of local government. Joint ventures with both Chinese and expatriate managers were the major targets for the in-depth personal interviews. As most Dalian-based joint ventures are run by Chinese managers, only seven expatriate managers were interviewed (Table 6.1-2).

**Table 6.1-2 Summary of Expatriate Managers Interviewed**

No. & Title	Time with the JV	Company name	Date of JV setting up	Origin of overseas partner
Manager 1 Asst. general manager	4 years	Dalian North Pacific Can Co. Ltd	1992.01	USA
Manager 2 Marketing director	3 year	Dalian Industrial Park Development Co. Ltd.	1992.10	Japan
Manager 3 General manager	4 years	Dalian Jianchang Foot Wear Co. Ltd.	1994.08	Korea
Manager 4 General manager	3 years	Dalian Polyclad Company Ltd.	1995.06	USA
Manager 5 General manager	3 years	Dalian Southcorp Can Co. Ltd	1995.07	USA
Manager 6 General manager	2 years	Le Café Igosso Co. Ltd	1996.03	Japan
Manager 7 President	2 years	Dalian Supertech Electronic Engineering Corporation	1996.08	USA

Of the seven expatriate managers, four were American, two Japanese, and one Korean. The interviews were conducted in English. In comparison with most Chinese managers, expatriate managers are more familiar with qualitative academic research. Therefore the author was introduced as an independent overseas PhD student to reduce the emphasis on official affiliation.

The interview questions for overseas joint venture managers were all open-ended. They were about the business environment, the working of joint venture, relative strategies, decision-making processes and the future.

### 6.1.3 Chinese Managers

All these interviews were also arranged by officials at different levels of local government. As most Dalian-based joint ventures are run by Chinese managers, it was less difficult to arrange such interviews. Here, I was introduced as an independent

overseas PhD student to reduce the emphasis on official affiliation, but with the additional hint that the author was also a personal friend of the Mayor's thereby implying that this research was of importance to the relationship between these Chinese managers and the local authorities.

Altogether 30 Chinese managers were interviewed. With regard to their parent companies, 20 were state-owned companies and 10 were private companies. Table 6.1-3 is a summary of the Chinese managers interviewed.

**Table 6.1-3 Summary of Chinese Managers Interviewed**

Name & Title	Time with the Co.	Company name	Date of setting up	Origin of overseas partner
Manager 1 Deputy general manager	9 years	Dalian North Pacific Can Co. Ltd.	1992.01	USA
Manager 2 General manager	8 years	Dalian Deli Medical Materials Co. Ltd.	1990.12	Hong Kong
Manager 3 HR manager	7 years	Dalian Thermo King Transport Refrigeration Co. Ltd	1991.12	USA
Manager 4 Plant manager	6 years	Dalian Pfizer Pharmaceuticals Ltd.	1992.03	USA
Manager 5 General manager	6 years	Dalian Hualu Electronics Co. Ltd.	1992.09	Japan
Manager 6 Deputy general manager	2 years	Dalian Industrial Land Development Co. Ltd.	1992.10	Japan
Manager 7 Deputy office manager	5 years	Dalian Taiyangcheng Entertainment Co. Ltd.	1993.02	Korea
Manager 8 Asst. general manager	5 years	Dalian Yuanda Building Co. Ltd.	1993.03	Hong Kong
Manager 9 General manager	1 year	Dalian Baolu Colour Printing Co. Ltd.	1993.05	Japan
Manager 10 General manager	5 years	Dalian Lanbao Fashion Dress Co. Ltd.	1993.05	Japan
Manager 11 Deputy general manager	4 years	Dalian Kun Chang Footwear Co. Ltd.	1994.08	Korea
Manager 12 Deputy general manager	4 years	Dalian Shenjun Health Products Co. Ltd.	1994.04	USA
Manager 13 General manager	4 years	Dalian Vander Orst Marine Engineering Co. Ltd.	1994.05	Germany

Name & Title	Time with the Co.	Company name	Date of setting up	Origin of overseas partner
Manager 14 Deputy general manager	4 years	Dalian THK Co. Ltd.	1994.06	Japan
Manager 15 General manager	4 years	Dalian Jianchang Shoe Co. Ltd.	1994.08	Korea
Manager 16 Office manager	4 years	Dalian Falong Industrial Co. Ltd.	1994.08	Hong Kong
Manager 17 General manager	4 years	Dalian Lingfa Food Products Co. Ltd.	1994.11	Japan
Manager 18 Chairman	4 years	Dalian Far East Tools Co. Ltd.	1994.12	USA
Manager 19 Deputy general manager	4 years	Dalian Okai Consultancy Co. Ltd.	1995.04	Japan
Manager 20 Deputy general manager	2 years	Dalian Polyclad Company Ltd.	1995.06	USA
Manager 21 Managing director	3 years	Dalian Southcorp Can Co. Ltd	1995.08	USA
Manager 22 General manager	3 years	Dalian Zhongying Precise Casting Co. Ltd.	1995.09	Japan
Manager 23 General manager	3 years	Dalian Diesel Marine Ltd.	1995.10	Britain
Manager 24 Deputy general manager	3 years	Dalian Pujin Steel Sheet Co. Ltd.	1995.11	Korea
Manager 25 Deputy general manager	2 years	Dalian Yigousou Restaurant Co. Ltd.	1996.03	Japan
Manager 26 Deputy general manager	2 years	Dalian Lushan Health Centre Co. Ltd.	1996.05	Japan
Manager 27 PR manager	2 years	Dalian Supertech Electronic Engineering Corporation	1996.08	USA
Manager 28 Deputy general manager	2 years	Dalian Jinggong Electronics Co. Ltd.	1996.09	Japan
Manager 29 General manager	2 years	Dalian Kaiyue Beauty/Health Co. Ltd.	1996.11	Taiwan
Manager 30 General manager	1 year	Dalian Zhuyang Paper Products Co. Ltd.	1997.12	Japan

The interview questions for Chinese managers were all open-ended with a similar focus to those before.

## **6.2 Changes in China's Business Environment in the 1990s**

The major evidents in the transitional economy and their impacts on state control over foreign direct investment were a common theme in talks with Dalian government officials at different levels. Many had admitted that the negative effects of China's economic reforms, together with the Asian financial crisis, had caused a decline in inflow of foreign investment since 1996.

The Dalian government had been under pressure to relax controls on foreign direct investment, especially on the setting up of joint ventures, in order to reverse the situation. The impact of the transitional economy at the national/regional levels in the 1990s can be summarised as follows.

### **6.2.1 Pressures for Government to Relax Controls over Joint Ventures**

#### **(1) Pressures for the Creation of Employment**

A high-level Dalian official<sup>4</sup> claimed that since 1984, China had implemented several reform measures to improve the productivity of state-owned enterprises, and the results had not been satisfactory. Since 1992, China has been in the process of building a 'socialist market economy', and Dalian has been severely affected by this reform in terms of economic decline and increasing unemployment.

Another senior government official<sup>5</sup> revealed that most state-owned enterprises were losing money. With further reforms, they would close down more inefficient factories and lay off a growing number of workers. He said, "In 1996, about 420,000 workers were either dismissed or redeployed elsewhere in five cities in Liaoning Province. Therefore, local governments came under strong pressure to create jobs for those unemployed workers".

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<sup>4</sup> Official 1, Dalian Committee of Foreign Trade and Economic Cooperation.

<sup>5</sup> Official 2, Dalian Foreign Affairs Office.

A high-level Dalian official<sup>6</sup> admitted that local governments had been pressurised by central government to make greater efforts to reverse the decline in foreign investment in their areas, with a view to creating jobs for laid-off workers from state-owned enterprises. Relevant government departments had been made to relax the criteria for setting up joint ventures or wholly foreign-owned enterprises, so as to encourage the creation of jobs for unemployed workers.

### **(2) Call from the Government to Reverse the Decline of Inward Investment**

According to a senior Dalian government official<sup>7</sup>: “China’s economy as a whole has declined in 1996, 1997 and 1998 owing to China’s internal adjustment of economic policy, especially the further reform of state-owned enterprises and the impact of Asian financial crisis. Therefore, there has been a substantial decline in foreign direct investment in Dalian between 1997 and 1998. We have been asked by central and provincial governments to do everything we can to turn this tide around. To be honest, the most effective action we can take with regard to job creation is to relax the control over foreign direct investment.” In essence, this interviewee saw little alternative if central government objectives were to be met.

Another official<sup>8</sup> disclosed that, with the impact of the Asian financial crisis, existing joint venture export has been seriously affected. This official stated that, “By the end of 1997, nearly 2000 joint ventures in Dalian had closed down due to a variety of reasons”. This figure was alarming for a city of approximately 7000 foreign-invested enterprises in total.

### **(3) Difficulty in Obtaining Bank Loans**

Another official from the Foreign-Invested Enterprise Division<sup>9</sup> said, “In the 1980s, joint ventures could take out bank loans secured by their investment in real estates. This practice was ended by the central government in the middle of the 1990s, which dealt a

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<sup>6</sup> Official 1, Dalian Committee of Foreign Trade and Economic Cooperation.

<sup>7</sup> Official 1, Dalian Committee of Foreign Trade and Economic Cooperation.

<sup>8</sup> Official 2, Dalian Foreign Affairs Office.

<sup>9</sup> Official 5, Foreign Invested Enterprises Division of Dalian Economic & Technical Development Zone.

huge blow to most Dalian-based joint ventures. In Dalian as well as in other major coastal cities, under pressure from the central government, banks have been extending loans only to rescue the failing state-owned enterprises. The shortage of bank loans has directly affected the operation of existing joint ventures and halted the start-up of new joint ventures.”

Another feature was the emphasis placed on finance. Several Dalian officials said that the greatest difficulty between 1996 and 1997 was that many joint ventures they had approved could not come into operation because the Chinese partners – state-owned firms in particular, – were unable enough funds, owing to difficulties in obtaining bank loans. As a result, local governments had to relax control and allow overseas investors to have majority stakes in setting up new joint ventures.

Several overseas partners complained about their Chinese partners' delay in supplying the capital they had promised. This was largely to do with the tightening of the capital market by the Chinese government. One American general manager<sup>10</sup> said in the interview, “In the 1980s, there were a lot of complaints from the Chinese government/Chinese partners about the delays by overseas investors in supplying their capital for setting up joint ventures. Nowadays, it is the Chinese partners who cannot pay up the capital for setting up joint ventures or to make further investment. That is why more and more Chinese partners have to let their overseas counterparts have majority stakes or even wholly own these ventures.”

In contrast, one senior local government official<sup>11</sup> pointed out that “It is true that bank loans are difficult to get at the moment, but this is not the only reason that most Chinese partners do not make further investment in their joint ventures. Most parent companies of Chinese partners have a tight budget at the moment, but some of them can still afford a bit of further investment. However, they don't just want to pour more money into the existing ventures as they think they are not worthwhile. The major reasons for this are

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<sup>10</sup> Expatriate Manager 4, Dalian Polyclad Company Ltd.

<sup>11</sup> Official 4, Dalian Economic and Technology Development Zone.



the problems in joint operation and anticipated long-term losses. The trust between Chinese and overseas partners, which existed in the early stage of joint ventures is no longer there.” This government official also mentioned that several large state-owned enterprises planned to invest abroad rather than in their Dalian-based joint ventures.

#### **(4) Impact of Regional Competition**

With the further opening up of the hinterland, most regional government departments have been competing to offer more attractive incentives to overseas investors. As one Dalian official<sup>12</sup> put it: “At the moment, in comparison with the hinterland, Dalian has no advantages at all in terms of incentives that can be offered to overseas investors and the flexibility given in interpreting central government policy towards foreign direct investment. There have been more and more reports about overseas investors moving away from coastal cities to areas in the hinterland to set up new and wholly owned enterprises. Several overseas joint venture partners in Dalian have already moved away or shifted into wholly owned ventures. We have no other option but to relax the controls over taxation, import of raw materials/components, domestic sales and in particular, the transfer of ownership from Chinese partners to overseas partners, in order to keep existing overseas investors to stay in our region.” However, this also suggests that many joint ventures lacked a positive attachment to Dalian, and were likely to keep other possible locations in mind as well.

### **6.2.2 Relaxed State Control over Joint Ventures**

#### **(1) Delegation of Authority for Approving Joint Venture Projects**

Dalian municipal government has redirected the responsibility for halting the regional decline of foreign direct investment to lower levels of government, including the development zone and the urban district authorities, by giving them specific targets for foreign investment inflows every year. The only effective way for lower-level authorities to achieve these targets has been to further relax the controls over foreign direct investment activities.

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<sup>12</sup> Official 12, Dalian Zhongshan District Committee of Foreign Trade and Economic Cooperation.

According to an official<sup>13</sup> in a district-level authority, “In order to increase the number of foreign-invested projects and to create jobs, the Dalian municipal government delegated the authority for approving foreign inward investment projects to the Development Zone Authority in 1994 and then delegated the authority further, to the district level authorities, in 1996. When the authority for approval of inward investment projects was delegated to us, we were also given a set target for introducing a certain amount of foreign capital and setting up a certain number of joint ventures each year. These targets were very hard to achieve and we have had to relax controls even further so as to let in more overseas investment. Nobody pays attention to the state regulations anymore.” An urban district official<sup>14</sup> said that, “The target for introducing foreign direct investment into our Zhongshan District is USD\$30 million this year (1998). The corresponding figure for Dalian Economic and Technology Development Zone in 1998 is USD\$80 million. In addition, we have been struggling to persuade existing overseas investors to stay in the region.” By the time of the interview (August 1998), they had only achieved 45% of their overall target. This official was openly worried that she might be replaced if she failed to meet the target by the end of the year.

To meet their targets, the lower-level government authorities often ignore many regulations, or agreed procedures, in order to make the setting up of joint venture projects within their administrative area much easier. As one official<sup>15</sup> said, “As long as a project can create jobs, we, the district government authorities, will approve it and do not care who the overseas partners are, where their money comes from and how much they will invest.” In other words there was a ‘don’t ask too many questions’ approach because many officials found they had little choice.

Another official<sup>16</sup> from the district-level authority said, “Consequently, lower level local authorities have made some significant changes with regard to the minimum capital requirement for overseas partners to set up joint ventures in Dalian. With the pressure

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<sup>13</sup> Official 9, Dalian Zhongshan District Sub-Council of the China Council for Promotion of International Trade.

<sup>14</sup> Official 9, Zhongshan District Sub-Council of the China Council for Promotion of International Trade.

<sup>15</sup> Official 11, Foreign Economic Relations and Trade Department, Shahekou District.

<sup>16</sup> Official 9, Zhongshan District Sub-Council of the China Council for Promotion of International Trade.

from higher authorities, we make it easy and straightforward to register for a joint venture, especially when it is a venture involving a private Chinese partner. Any overseas investor can set up a joint venture in Dalian as long as he/she puts in USD\$50,000." This official also said, "We know the potential problems that may be caused by this simplistic policy, but the local government takes no action against it and we have to meet the set targets."

Because of such pressure, the local authorities had to relax the control for setting up foreign-funded enterprises, and this has probably led to the creation of many shell joint ventures in the past two years. As several officials put it, what mattered to the local authorities was the quantity, not the quality of foreign direct investment. Table 6.2-1 presents the minimum capital requirement for overseas investors to set up a joint venture in Dalian from 1996 to 1998.

**Table 6.2-1 Official Requirement for Minimum Capital Contribution by Overseas Partners**

(USD\$)

Official requirement	1996	1997	1998
Minimum contribution by overseas partners	5,000,000	100,000	50,000

Source: Department of Foreign Trade and Economic Cooperation of Dalian municipal government, 1998.

It can be seen that Dalian government departments were so keen to attract overseas capital that they had considerably lowered the standard for inward foreign investment, indicating they might care more about quantity. One official<sup>17</sup> declared, "We know we are making mistakes, as the relaxed controls for setting up joint ventures will bring in many shell joint ventures, but we have to meet the target set by the higher authorities." The subordinate nature of their power and authority was, thus, also an important feature of their responses.

<sup>17</sup> Official 10, Foreign Economic Relations and Trade Department, Ganjingzi District

## **(2) Limited Pressure to Set up Joint Ventures**

One Japanese manager<sup>18</sup> from an industrial park development company stated that the most impressive external impact on his venture's strategies was the absence of local government pressure to set up joint ventures. More wholly foreign-owned enterprise had entered his industrial park, which had not been so open to wholly foreign-owned enterprises before, making it rather less exclusive. This Japanese manager thought that this policy would affect the joint operation of most existing joint ventures, as more overseas partners were starting to consider wholly owning their ventures rather than entering into a joint venture.

## **(3) Relaxed Controls on Ownership Transfer**

In line with the campaign to encourage foreign direct investment, especially wholly foreign-owned enterprises, the control of ownership transfer within existing joint ventures was relaxed. Consequently, this has led to a series of shifts from joint ventures to wholly foreign-owned enterprises. Several government officials emphasized that many overseas investors established joint ventures in the 1980s simply to comply with Chinese government regulations and were not satisfied with joint operations so far. These officials claimed that many existing overseas investors, including several big multinationals, had already contacted them, demanding withdrawal of their equities from joint ventures, and seeking to move to the hinterland, unless the local authorities let them wholly own their ventures. These bargaining tactics were something new and different in their experience.

As one official<sup>19</sup> pointed out, "We have to compromise with foreign investors who demand to wholly own the joint ventures. We could not afford to lose them. We prefer them to stay as wholly owned enterprises rather than see them moving away." This official also said, "We have to persuade many Chinese partners to give up their joint venture shares and allow their overseas partners to own those joint ventures. This has proved not to be a difficult job, as many Chinese partners are not happy with their joint ventures either." The implication was that local government would compromise and even

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<sup>18</sup> Expatriate Manager 2, Dalian Industrial Park Development Co. Ltd.

<sup>19</sup> Official 3, Dalian Economic and Technological Development Zone.

assist this conversion process, playing the role of an intermediary trying to bring about the required change.

#### **(4) Less Export Pressure**

Several Chinese and expatriate managers said, "Although there are still official calls for joint ventures to export their products, unofficially the pressure is not real". These officials claimed that, since 1997, there had been a substantial increase in joint venture domestic sales because of problems with exports due to the Asian financial crisis.

Another official<sup>20</sup> revealed, "It is true that the Asian financial crisis led directly to a dramatic drop in the overall level of exports to Asian countries by China-based joint ventures in 1997 and 1998, and the central government has had to open the domestic market wider to China-based joint ventures. Many Dalian-based joint ventures have consequently turned to the domestic market for survival. Nevertheless, there is another reason why many Chinese partners deliberately make great efforts to expand domestic sales, in spite of the local government's pressure to export – they want to maintain a certain degree of control over this end and make some profits from it."

One Japanese manager<sup>21</sup> said, "More and more joint ventures and wholly foreign-owned enterprises have failed to meet their official export targets without being punished by the local government. The government departments seem to have a tacit understanding of this. I know that our Chinese partner has been encouraged by the relevant government departments to make domestic sales to make some profits from it themselves." In other words, there was more than one way to 'read' government intentions, and a sense that there was some 'game playing' regarding export targets.

A Chinese deputy general manager<sup>22</sup> pointed out that Chinese partners regarded the domestic sales as a sure way of making profits, compared with the uncertainty in transfer

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<sup>20</sup> Official 4, Dalian Economic and Technological Development Zone.

<sup>21</sup> Expatriate Manager 2, Dalian Industrial Park Development and Administration Co.Ltd.

<sup>22</sup> Chinese Manager 20, Dalian Polyclad Company Ltd.

pricing. A deeper significance emerged: it would enable more Chinese to have control over business.

One official<sup>23</sup> claimed: “We understand that some Chinese partners have lost a lot of money over a long period of time because of their overseas partners’ transfer pricing tactics. It is therefore vital for the joint venture to make a profit through domestic sales, where Chinese partners can play a hands-on role. However, once a Chinese partner has gained control over the domestic sales it will play the transfer pricing game itself. If things go this way, the joint venture project will never survive. Nevertheless, many local government officials have become interested in assisting the expansion of joint ventures’ domestic sales in order to give Chinese partners a chance to make some profits for their parent companies.”

#### **(5) Decreasing Differences between Joint Ventures and Wholly Foreign-Owned Enterprises**

In line with relaxing controls over foreign direct investment, the Dalian municipal government had also started a campaign to encourage wholly foreign-owned enterprises by offering further favourable incentives. This made for little real difference between joint ventures and wholly foreign-owned enterprises in terms of setting up the business, corporate tax, exportation and even domestic sales.

One government official<sup>24</sup> claimed, “The major difference between a joint venture and a wholly foreign-owned enterprise is that a joint venture would find it easier to conduct sales in China’s domestic market. Apart from this, a wholly foreign-owned enterprise is actually much easier and more straightforward to set up, as it does not need a board of directors. Although there are still regulations under which wholly foreign-owned enterprises must export a certain proportion of their products, the central government has,

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<sup>23</sup> Official 5, Dalian Economic and Technological Development Zone.

<sup>24</sup> Official 12, Foreign Economic Relations and Trade Department, Shahekou District

since 1996, gradually lifted the ban on domestic sales for wholly foreign-owned enterprises.”

Another government official<sup>25</sup> said, “To be honest, local government would do nothing if a joint venture or a wholly foreign-owned enterprise failed to meet their export requirements. The government can’t afford to lose any overseas investors. On the other hand, Chinese partners might benefit from the increase in domestic sales.”

A Japanese manager<sup>26</sup> commented, “Most foreign investors are already aware of the lack of difference between a joint venture and a wholly foreign-owned enterprise in terms of domestic sales. That is why more and more overseas investors are very actively renewing their joint venture strategies and converting to wholly foreign-owned ventures. If the door of domestic sales opens wide to all, then a wholly foreign-owned enterprise would be much easier to operate than a joint venture.”

In commenting on the disappearance of previous differences between a joint venture and a wholly foreign-owned enterprise, an American general manager<sup>27</sup> said, “This is the most important external impact on the joint venture strategies. I entered a joint venture with a Chinese partner mainly in order to penetrate China’s domestic market, because I was only allowed to sell my products on the domestic market if I had a Chinese partner. At the moment, I am allowed to sell our products on the domestic market even without a Chinese partner. This is the main reason for me trying to convert the joint venture into a wholly owned enterprise.” Hence, there was some equalisation between business formats so far as these respondents were concerned.

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<sup>25</sup> Official 5, Dalian Economic and Technology Development Zone

<sup>26</sup> Expatriate manager 2, Dalian Industrial Park Development Co. Ltd.

<sup>27</sup> Expatriate Manager 5 Dalian Southcorp Can Co. Ltd.

### **(6) The Private Sector's Involvement in Joint Venture Projects**

A senior Dalian official<sup>28</sup> asserted "The private sector has clearly been allowed to get involved in joint venture projects since 1995, and the central government and local authorities are encouraging the private sector to create jobs by setting up joint ventures."

Another official<sup>29</sup> explained that owing to the difficulty in obtaining bank loans for state-owned enterprises as potential joint venture partners, the Dalian government had turned to the private sector for help. Local private enterprises had been encouraged to become more involved in joint venture projects since 1995 and had made significant contributions to job creation. According to this official, by 1998, joint ventures between private Chinese partners and overseas partners could account for almost one third of the total 7000 foreign invested enterprises in Dalian.

As local governments give job creation such priority, their requirements for setting up joint ventures increasingly focused on the amount of foreign capital and job creation rather than on advanced technologies or hi-tech products. Any auditing of potential Chinese and overseas partners tended to be relatively informal. Therefore, it became much easier for private companies to establish a joint venture. Nearly all the private Chinese partners interviewed confirmed that the government's relaxation of control over the private sector's involvement in joint ventures, as well as incentives, such as tax holidays and direct import and export licences, were particularly attractive to them.

As one government official<sup>30</sup> put it, "We know that many joint ventures involving private Chinese partners are shell joint ventures. There are actually no overseas partners in these ventures, but we can do nothing about them. Otherwise, we would have more unemployment." For the setting up of a shell joint venture, one government official<sup>31</sup> explained, "Many owners of private Chinese companies have sent their money to their 'friends' abroad. Most of these 'friends' were actually their former business partners in

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<sup>28</sup> Official 1, Dalian Municipal Commission Foreign Trade and Economic Cooperation

<sup>29</sup> Official 2, Dalian Municipal Foreign Affairs Office

<sup>30</sup> Official 9, Dalian Zhongshan District Commission of Foreign Economic Relations and Trade.

<sup>31</sup> Official 9, Dalian Zhongshan District Commission of Foreign Economic Relations and Trade.



Japan, Hong Kong or the USA. Their 'friends' are asked to bring the money back to China and help their Chinese friends register for a joint venture. Certainly, the overseas partner in this case is only a token partner, with no real investment. Those joint ventures are actually wholly owned and operated by the Chinese. Generally speaking, most shell joint ventures are stable and profitable."

Several Chinese partners from the private sector said they were stimulated by the policy of encouraging the private sector to become involved in joint venture projects. One Chinese manager<sup>32</sup> indicated that the purpose he had in setting up a joint venture was to obtain an import and export licence. This manager frankly admitted that he did not need an overseas partner, but it would have been impossible to obtain the import and export licence for a private enterprise without entering into a joint venture.

### **6.3 Changes in Joint Ventures**

Nearly all Dalian officials and joint venture managers interviewed confirmed some changes in joint ventures. The following section presents relevant changes at venture level in terms of strategies, ownership structure and operational management.

#### **6.3.1 Joint Venture Strategies**

A deputy director<sup>33</sup> of Dalian Municipal Commission of Foreign Trade and Economic Cooperation disclosed that by the end of May 1997, nearly 2000 joint ventures in the Dalian area had closed down or converted to wholly owned ventures. This happened for a variety of reasons, but was especially due to the changes in strategies between Chinese and overseas partners. This senior Dalian government official also said, "Joint ventures have been set up and are in operation. The potential for profit is obvious. However, because of strategic differences between partners, only the controlling partner can benefit. The crucial problem, at the moment, is the battle between the partners to control the operations and to influence the ventures' strategic direction. This directly affects the

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<sup>32</sup> Chinese Manager 17, Dalian Lingfa Food Products Co. Ltd.

<sup>33</sup> Official 1, Dalian Municipal Commission of Foreign Trade and Economic Cooperation.

stability of joint ventures in the region. A joint venture would only be completely stable if either the Chinese or the overseas partner withdrew from it.” As this official saw the situation, there were as number of different contexts over ownership and control of joint ventures.

Another local government official<sup>34</sup> said, “Conflicts between Chinese and overseas partners over the ventures’ overall strategies have significantly increased in the past few years and caused further uncertainty. Local government departments have spent a good deal of time and effort in mediation and arbitration. Those conflicts are about differences in the ventures’ strategies and controls, rather than the commonly perceived difficulties in cross-cultural management, product quality, or the inefficiency of Chinese workers”.

### **(1) Internal Factors Driving the Changes in Partners’ Strategies**

#### **▪ Changes in Partners Power and Autonomy**

With looser government control over foreign direct investment, the bargaining powers of local governments and Chinese joint venture partners were greatly reduced and, moreover, overseas venture partners gained greater bargaining powers and autonomy.

One government official<sup>35</sup> admitted that local authorities’ bargaining powers vis-à-vis overseas investors were reduced because the local government ‘desperately’ needed overseas investors’ inputs and their contribution to job creation. As a result, so long as overseas investors stayed, invested and created jobs in Dalian, local government was obliged to sustain them.

All overseas managers interviewed admitted that they were now in a better bargaining position to choose where they would like to move to, where to sell their products, where to purchase raw materials/components and where to recruit staff and workers. Most

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<sup>34</sup> Official 10, Dalian Committee of Foreign Trade and Economic Cooperation, Ganjingzi District.

<sup>35</sup> Official 10, Foreign Trade and Economic Cooperation Department, Ganjingzi District

importantly, it was much easier to acquire a majority on the board, or even to buy out their Chinese partners, at least compared to the situation before.

One American general manager<sup>36</sup> said that he already controlled the overall operation of his joint venture. He knew his Chinese partner had not been satisfied for some time and had the clear intention of pulling out of the business. He said, "I would like to be a wholly owned enterprise, but I am not going to buy out the Chinese partner's shares right now. The bargaining power is in my hands and I will wait until there is an even more favourable opportunity."

The Chinese deputy general manager<sup>37</sup> of this joint venture also stated that his parent company had already decided to pull out of the joint venture, but had no power at all to bargain with the overseas partner to obtain a reasonable selling price for the Chinese partner's stake. He said, "Two years ago, the local government didn't allow us to pull out. Now, they are putting pressure on us to pull out and let the overseas partner wholly own the venture."

With controls over foreign direct investment relaxed, overseas partners could now exercise the right to obtain majority shares from Chinese partners or even buy out joint ventures. Many overseas partners were demanding further capital injection, aiming to obtain majority stakes or wholly own the ventures, as most Chinese partners were simply not able to put money in because there were no loans available to them.

Chinese managers from state-owned partners expressed their disappointment about their reduced bargaining powers in the joint ventures. One Chinese manager<sup>38</sup> indicated that his parent company had no power at all to bargain with the overseas partner, and even local government did not give backing to his parent company. The overseas partner simply did not want the Chinese partner, but local government needed all the jobs created by the joint venture. The manager went on to say that his parent company did not have

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<sup>36</sup> Expatriate Manager 4, Dalian Polyclad Co. Ltd.

<sup>37</sup> Chinese manager 20, Dalian Polyclad Co. Ltd.

<sup>38</sup> Chinese Manager 20, Dalian Polyclad Co. Ltd.

the money to buy out the overseas partner, nor would it be allowed to pull out of the venture.

In contrast, overseas partners appeared satisfied with their existing position. One Korean manager<sup>39</sup> said that he was allowed to sell the venture's products to the domestic market even without a Chinese partner. He had a hint that he was backed up by the local government to convert the joint venture into a wholly owned enterprise. This Korean manager said, "I know that the 750 jobs created by this joint venture are the most important aspect for bargaining with the local government."

#### ▪ **Changes in Partners' Interdependency**

In the 1980s and the early 1990s, overseas joint venture partners viewed joint venture as crucial for gaining access to local markets, buyers and distribution channels. These were exactly the kinds of input overseas investors would find it difficult to obtain when operating alone and where the local knowledge and contacts of the Chinese partners were vital. The importance of these largely intangible inputs could significantly outweigh the importance of access to more tangible inputs such as labour, materials and capital. In the same way, what China needed from overseas investors was not only foreign capital and new products, but also foreign advanced technology and equipment as well as management skills.

However, after 20 years of exposure to China, overseas investors had found that they needed less from their Chinese partners. One American general manager<sup>40</sup> revealed that his company chose a Chinese partner because it had a very good relationship with the local government, and also because of its parent company's existing sales channels and its expertise in managing Chinese staff. But, to its surprise, the American partner did not benefit from the so-called good relationship between the Chinese partner and the local government, because the American company could not gain access to the existing sales channels of its Chinese partner's parent company. What they got from their Chinese

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<sup>39</sup> Expatriate manager 3, Dalian Jianchang Footwear Co. Ltd.

<sup>40</sup> Expatriate Manager 4, Dalian Polyclad Company Ltd.

partner were disputes over joint management, operational problems and many more unqualified workers transferred from the Chinese partner's parent company. This American general manager said, "I have employed a Human Resources Manager from the local job centre, who works for me and has helped establish a really good management team that I can trust. She has also established a really good relationship with local government, which has enabled us to access many governmental incentives. We have also established our own sales team to do our domestic marketing. What do I need from our Chinese partner? Troubles? I can tell you honestly that what I want is a strategic partner rather than a venture partner. I think the local government is the best strategic partner. They are better than the Chinese partner."

A Korean general manager said that he had not needed any input from the Chinese partner in the first place, but he was forced by the local authority to adopt a Chinese partner as a condition of entry. This expatriate manager said, "We have so many problems with joint operation at the moment. Things would be much simpler if we didn't have a Chinese partner. Now, the policy has changed, and I am negotiating with the local authority and trying to convert the venture into a wholly owned business. I am also glad that we are allowed to employ staff and workers ourselves from the local job centre. Staff and workers recruited directly by myself are far better than those transferred from the parent company of my state-owned Chinese partner."

Most Chinese partners with majority stakes were pretty confident of their controlling position even without their overseas partners. One Chinese general manager<sup>41</sup> said, "Through the joint venture, we have obtained new products, advanced technology and equipment. We have also learnt relatively advanced management skills. I don't think we need our overseas partner's hands-on work anymore. Expatriate managers are too expensive. They (the overseas partner) should trust their Chinese partner and leave everything to us. It would make things simpler for both of us".

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<sup>41</sup> Chinese Manager 1, Dalian North Pacific Can Co. Ltd.

However, those Chinese partners with minority stakes experienced more uncertainty. They needed their overseas partners' input but had to make great efforts to maintain their existing stakes to maximise control. Because their overseas partners had been running the operation at a loss for several years, several Chinese partners were planning to pull out. One Chinese deputy general manager<sup>42</sup> said that he knew his American partner no longer needed a Chinese partner, and he had already got a clear signal from his parent company and informed the local government he wanted to pull out of this joint venture. The role of local officials as 'the third party' in this process was therefore openly recognised.

One Chinese deputy general manager<sup>43</sup> had worked in a joint venture as the representative of the Chinese partner for three years. Now, it was clear that the Japanese partner was said to be 'tired' of the Chinese partner and wanted a 'buy out', while the Chinese partner was instructed by the local government to pull out. This joint venture was now wholly owned by the Japanese partner and the deputy general manager had been asked to stay until a replacement was found.

It was surprising that the seven overseas general managers interviewed all felt that they did not really benefit from the so-called 'good relationship' between their Chinese partners and the local government. One American general manager<sup>44</sup> commented, "Compared to my Chinese partner, staff members recruited from the local job centre have contributed much more to the joint venture in dealing with local government departments. The Chinese partner has done absolutely nothing but argue with me."

A Japanese manager<sup>45</sup> said that if everything was going well, the good relationships between his Chinese partner and the government departments did help the venture. However, if the Chinese and overseas partners were in conflict, the relationship would only seriously damage the overseas partner. For example, to reduce the high rate of employee turnover, this Japanese manager launched a more competitive pay package in

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<sup>42</sup> Chinese Manager 20, Dalian Polyclad Company Ltd.

<sup>43</sup> Chinese Manager 19, Dalian Okai Consultancy Co. Ltd.

<sup>44</sup> Expatriate Manager 4, Dalian Polyclad Company Ltd.

<sup>45</sup> Expatriate Manager 2, Dalian Industrial Park Development and Administration Co. Ltd.

Dalian, based on his research into other Japanese joint ventures in Beijing, Shanghai and Shenzhen. However, this pay package was not accepted by the local government department, because the local authority feared that such a package might lead to a rise in the average wage rate in the entire region. At the same time, to his surprise, his Chinese partner, instead of using their good relationship with the government to lobby the local authority to approve the pay package, asked him to give up the idea.

Another Chinese deputy manager<sup>46</sup> said that his parent company had been trying very hard to work together with their American partner, but without success, and that this was not because of inadequate co-operation, but because of different strategies. He said it was 'hopeless' to rely on his foreign partner for overseas sales because of transfer pricing. The Chinese partner had to adjust its strategy and sell all their shares (30%) to their American partner. He said, "We have decided to set up an assembly factory in the US or Europe with components manufactured in China. We can sell our products to European countries and the US. I think the joint venture model may still be used abroad, but not in China anymore."

From interviews with Chinese managers, it became clear that, with state control over foreign direct investment relaxed, the Chinese government and local authorities could offer more assistance to overseas investors in gaining access to China's domestic market, government incentives, and low cost labour, even without their having a Chinese partner.

## **(2) Development of Partners' Independent Strategies**

With changes in market conditions, ownership structure and internal relationships, both Chinese and overseas partners had quietly developed new strategies that would allow them to reposition themselves in their ventures.

One Japanese manager<sup>47</sup> said that he had 'very unpleasant' three years of joint operation with his Chinese partner. He believed he had done his best to adapt to the Chinese

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<sup>46</sup> Chinese Manager 1, Dalian Polyclad Co. Ltd.

<sup>47</sup> Expatriate Manager 2, Dalian Industrial Park Development and Administration Co. Ltd.

situation. He replaced Japanese staff by Chinese staff as far as he could, but still failed to gain the cooperation of his Chinese partner. He said, "I have a feeling that our Chinese partner only wants our capital, technology and products, but not really a Japanese partner. So why should we have a Chinese partner?" This Japanese manager revealed that the Japanese parent was considering buying out the joint venture. He admitted that the company was adjusting its strategy in China with the aim of establishing a wholly owned enterprise.

An American general manager<sup>48</sup> entered into a joint venture because it was the only way to sell a proportion of his products on the domestic market at that time. He revealed he had a 'difficult' experience with a group of uncooperative Chinese staff recruited from his Chinese partner's parent company. He had no 'control' because they knew they could go back to their jobs in the parent company at any time. This American manager then modified his recruitment policy and replaced his Chinese partner's staff by recruiting from the local job centre. The venture had had a joint long-term strategy for business development in China, however, this was gradually replaced by the strategy of the American partner.

A Chinese general manager<sup>49</sup> declared that he had to develop a completely new strategy. His Hong Kong partner withdrew because of the failure to sell anything produced by the joint venture abroad in the past two years. He said it had been very hard for him in the last few years, but he was now better placed because he could do things according to his own wishes.

### **(3) Shifts in Market Focus**

As far as the target market was concerned, most joint venture partners reached a compromise over their differences at the early stage and targeted both overseas and domestic markets. However, this compromise market strategy did not always work at the

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<sup>48</sup> Expatriate Manager 4, Dalian Polyclad Co. Ltd.

<sup>49</sup> Chinese Manager 2, Dalian Deli Medical Materials Co. Ltd.



operational stage. A Chinese general manager<sup>50</sup> said, “We are targeting the overseas market, but our overseas partner’s objective is to get access to the domestic market. We then have to make a compromise to target both markets in order to make the joint venture work. Targeting both domestic and overseas markets seemed to be a really good idea at the venture-preparing stage. However, at the operational stage, such differences in objectives become acute and each party makes great efforts to influence the operation in favour of its own strategic market objectives. We then start to have continual conflicts in the joint operation and both parties suffer setbacks.”

However, in contrast to much of the literature and the questionnaire survey results of this study, it appeared that overseas partners were more interested in overseas markets, and Chinese partners were making extra efforts in domestic markets.

As one Chinese partner<sup>51</sup> put it: “Both Chinese and US partners preferred to make a quick entry deal at the negotiation stage and made compromises in their market strategies. But at the operational stage, the overseas partner managed 100% sales to the overseas market and made their own profits outside China. This left the joint venture unable to break even for several years. Hence, we cannot compromise any more and are starting to fight for domestic sales in order to make profits ourselves”.

Another Chinese deputy general manager<sup>52</sup> said, “We are under strong pressure from both our parent company and the government departments concerned to expand overseas sales in order to earn hard currency. But the overseas sales are completely controlled by the Japanese partner, and it is clear that they are playing the ‘transfer pricing’ game and make their profits outside China. As we cannot do anything about overseas sales, the only thing we can do is to change our market strategy and make efforts to increase domestic sales.”

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<sup>50</sup> Chinese Manager 9, Dalian Baolu Colour Printing Co. Ltd.

<sup>51</sup> Chinese Manager 3, Thermoking Dalian Transport Refrigeration Co. Ltd.

<sup>52</sup> Chinese Manager 27, Dalian Supertech Electronic Engineering Corporation

In another case, an American general manager<sup>53</sup> from a Sino-USA joint venture said that in 1988, his parent company had planned to set up a wholly owned venture in Dalian as an export-oriented manufacturing base, but was forced to establish a joint venture with a government-recommended local partner, which held a 30% stake. The joint venture planned to export all its products, and this was encouraged by both the Chinese partner and the Dalian government. However, in 1997, his Chinese partner started to make greater efforts to sell on the domestic market and also sought more local sourcing, which greatly affected performance. The Chinese deputy general manager<sup>54</sup> of the same company claimed that, despite many difficulties, the productivity of his joint venture was quite high, even by American standards. Nevertheless, the joint venture had never made any profit, after being in operation for five years. He said he was quite sure that his American partner had made profits outside China through practising transfer pricing, because the American partner had twice asked for further injections of capital to expand production. He said the Chinese partner had to change its overseas market-oriented strategy and put its efforts into domestic sales. In this way, the Chinese partner could at least control something in the operation and make some profits.

A Chinese general manager<sup>55</sup> from a joint venture manufacturing medical products said, “The purpose for us in setting up a joint venture was to upgrade of our products using imported technology and equipment. With the advanced technology and equipment we would improve our productivity and the quality of our products, then increase our domestic market share and, in the long run, expand the business into the overseas market. We picked up the Hong Kong partner because they guaranteed to sell 60% of the joint venture’s products abroad. They seemed to be a really ideal partner for us at the beginning. However, at the operational stage, we soon found that our Hong Kong partner only cared for short-term profits – making money by importing the equipment and machinery for the joint venture and charging us too much for them. They could not actually sell anything abroad. With the pressure from the local government to export 60% of the joint venture products, which was clearly stated in the contract, our Hong

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<sup>53</sup> Expatriate Manager 4, Dalian Polyclad Co. Ltd.

<sup>54</sup> Chinese Manager 20, Dalian Polyclad Company Ltd.

<sup>55</sup> Chinese Manager 2, Dalian Deli Medical Materials Co. Ltd.

Kong partner simply disappeared and never came back. We were left with a joint venture with improved production capacity and a lot of unsold products, but no overseas market. We have had to change our market strategies and turn to the domestic market for survival.”

### **6.3.2 Joint Venture Ownership**

Most Chinese managers interviewed expressed little doubt that majority stakeholders could exercise dominant control over joint operations. But for most state-owned Chinese firms it was getting harder to be a majority stakeholder, not only because of the financial situation in their parent companies, but also because of different respective bargaining powers. The Chinese partners had virtually no powers to bargain for a majority ownership. In contrast, most overseas investors indicated that they were aiming to acquire 70 per cent stakes with a view to having complete control over the joint venture.

As one American manager<sup>56</sup> said, “For a successful joint venture in China, the overseas partner must control at least a 70 per cent stake of a joint venture. Otherwise, he should give it up completely.” One Japanese manager<sup>57</sup> said that “More and more Japanese partners prefer a wholly owned venture, or otherwise to hold less than a 15 per cent stake in the venture and to be a silent partner – mainly responsible for overseas sales and for purchasing raw materials/components for the joint venture.”

#### **(1) Ownership Transfer between Partners**

In the interviews, once the topic of ownership was mentioned, particular attention would be focused on ownership transfer between joint venture partners and the conversion from joint ventures to wholly owned enterprises.

One expatriate manager<sup>58</sup> said that, “As China’s business environment has become more favourable to overseas investors, most wholly owned ventures in Dalian are quite successful in terms of operation and earning profit. There will be more and more

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<sup>56</sup> Expatriate Manager 7, Supertech Electronic Engineering Corp.

<sup>57</sup> Expatriate Manager 6, Le Café Igosso Co. Ltd.

<sup>58</sup> Expatriate Manager 1, Dalian North Pacific Can Co. Ltd.

ownership transfers from Chinese partners to overseas partners in coming years, as most overseas venture partners are aiming to end up with a wholly owned venture. The local authorities are actually happy with the conversion from joint ventures to wholly owned enterprises, as the latter are more stable and profitable.”

Several Chinese partners believed that it would be valuable to increase their stake in order to increase control, but they lacked the required funds. One Chinese manager<sup>59</sup> said, his parent company simply had no funds for further investment, so they had been looking for another potential domestic partner to join them. With a new partner, they might increase their stakes in the joint venture. However, most Chinese partners did not have the financial strength to increase their ownership shares, because of the tight budget applied by their parent companies.

Increasing capital investment in joint ventures would be advantageous for further development, but it had been problematic for Dalian government officials and Chinese partners. In the interviews, these admitted that in most cases ‘further capital investment’ was made while the venture was running at a loss. How would production be expanded by further investment while the venture was losing money? This could only be explained by the overseas partners’ transfer pricing policies.

Another official<sup>60</sup> said, “In most cases, the request for further capital investment by overseas partners was always a hint that the overseas partner wants to buy out the Chinese partner’s share. It is a chance for the Chinese partner to pull out, as no Chinese partners will continue to make further investment in a joint venture running at a loss. It is better to let the overseas partner wholly own the joint venture than to make the Chinese partner continue to lose money.”

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<sup>59</sup> Chinese Manager 30, Dalian Zhuyang Paper Products Co. Ltd.

<sup>60</sup> Official 4, Invested Enterprises Administration Department of Dalian Development Zone

A Chinese deputy general manager<sup>61</sup> said that his parent company entered into a joint venture with a Japanese partner in early 1996 and he used to represent the Chinese partner. Negotiations started in the middle of 1995 and all went well. The joint venture contract was signed after the Chinese party was secured a loan from the Dalian branch of the China Industrial and Commercial Bank. After the joint venture was established, however, the Chinese partner simply could not pay out any capital, because the loan was cancelled owing to changes in China's business environment. It took them about one year to apply for another loan from other sources, but all efforts failed. They had to let the Japanese partner wholly own the venture.

A Chinese deputy general manager<sup>62</sup> claimed that his joint venture was set up in 1994 with a partner from the USA, who owned 60 per cent. All products were exported to the USA and South American countries. The operation was smooth and they had been quite busy. However, the joint venture never made any profits. As a result, the Chinese partner wanted to pull out, but the local authority forced them to stay. In April 1998, their American partner demanded further investment. The Chinese partner was definitely not willing to continue to invest money in this non-profitable operation. They therefore had to sell their 30 per cent stake to the American partner. The Chinese partner kept only a 10 per cent stake and maintained no operational influence at all. In fact, they would have sold the remaining 10 per cent stake if they had been able to gain approval from the local authority.

There were also cases in which a profitable joint venture requested further investment, but the Chinese partner had no money to contribute. Eventually, the Chinese partner had to sell shares to its overseas partner. One official<sup>63</sup> asserted that some Chinese partners could not tolerate holding a minority stake in a joint venture, so they were forced out of the joint business.

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<sup>61</sup> Chinese Manager 25, Dalian Yigousou Restaurant Co. Ltd.

<sup>62</sup> Chinese Manager 12, Dalian Shenjun Health Products Co. Ltd.

<sup>63</sup> Official 5, Dalian Economic and Technological Development Zone

Several Chinese managers also believed that ownership transfer from the overseas partners to Chinese partners offered few difficulties. In many cases, overseas partners quietly pulled out, and left only a name in the joint venture, in exchange for a dealership or overseas sales contract for the joint venture's products.

In another case, a Chinese general manager<sup>64</sup> said that she had 50 percent stakes in the early stage of her joint venture with a Japanese partner. However, after one year of joint operation, her Japanese partner had proposed keeping only a 15 per cent stake and had remained as a silent partner, as they thought a joint operation was too complicated.

### **(2) Converting Joint Ventures into Wholly Owned Enterprises**

Further encouragement to wholly foreign-owned enterprises on the part of the Chinese government brought in more foreign investment, as well as new hopes for those frustrated with existing overseas joint venture partners. Because of conflicts with their Chinese partners, overseas partners changed their strategies, wanting to convert joint ventures officially into wholly owned ones. Several senior local government officials conceded that there were many joint ventures officially converted into wholly owned ventures in 1996. All the government officials interviewed basically confirmed that, according to their experience, the new wholly owned enterprises had not only bypassed certain joint operational problems, but also brought better profitability.

An official<sup>65</sup> told me that several multinationals in Dalian had demanded to wholly own their ventures, saying that otherwise they would withdraw from the ventures, and move to a hinterland area to set up wholly owned enterprises there.

### **(3) Joint venture Ownership Transfer before 1996**

Starting in 1996, the Chinese government officially allowed overseas investors to wholly own joint ventures through official ownership transfer. Nevertheless, it became apparent in interviews that there had been unofficial ownership transfers before 1996. Several

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<sup>64</sup> Chinese Manager 10 Dalan Lanbo Fashionable Dress Co. Ltd

<sup>65</sup> Official 1, Dalian Foreign Trade and Economic Cooperation Committee.

lower-level government officials also confirmed a large number of unofficial ownership transfers in the region. One official<sup>66</sup> said, "At that time (the first half of the 1990s), it was not permitted for an overseas joint venture partner to own a joint venture completely through internal ownership transfer. Therefore, in almost every single case of unofficial ownership transfer, a quiet deal was done between joint venture partners in a spirit of mutual compromise. One partner eventually pulled out of the venture or gave up the business after acquiring certain benefits."

There were also some cases in which overseas partners just left for good without giving any advance notice. There was no doubt that the overseas partners who pulled out had already recovered their investment by importing equipment and raw materials for the joint ventures at artificially inflated prices. Most of them were Korean and Hong Kong partners with minority stakes." However, there were several cases in Dalian in which Chinese partners had pulled out through unofficial deals. Those ventures still kept the name of the joint business while the overseas partners were running the ventures in Dalian alone. According to unpublished local official records, the official ownership transfers usually involve European, USA, and Japanese partners, while the unofficial ownership transfers usually involve Hong Kong, Taiwanese, Korean partners.

### **6.3.3 Joint Venture Operation**

Both Chinese and overseas joint venture managers interviewed stated that the most problematic area for a joint venture was probably its actual joint operation.

#### **(1) Joint Venture Performance**

The interviews revealed that there were several problems between Chinese and overseas partners. No partner seemed completely satisfied with the situation. The changes in their power relationship suggested limited common ground. Although some Chinese managers confirmed the existence of a good relationship with their overseas partners in the early stage, many admitted it was no longer the case. Both Chinese and overseas managers admitted serious worries about the future relationships with their business partners.

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<sup>66</sup> Official 9, Dalian Foreign Trade and Economic Cooperation Committee, Zhongshan District

### ▫ **Worsening Joint Venture Operation**

Expatriate managers complained strongly about their Chinese partners' efforts to gain control over the joint venture and about their lack of cooperation in the running of the business, while most Chinese managers complained of the expatriate managers' domineering attitudes.

An American general manager<sup>67</sup> said that he was running his joint venture in a professional way, in particular, as far as the accounting system was concerned. According to the agreement made between the two parties in the early stages, the accounting department should keep the accounts books in English and produce a quarterly accounting report in Mandarin for the Chinese partner. However, soon after starting, the Chinese partner asked for a monthly accounting report in Mandarin. The request was refused by the general manager because of the shortage of accounting staff. From that point on, his Chinese partner allegedly adopted an uncooperative attitude in almost every aspect of the joint operation, especially the areas controlled by them.

A Chinese deputy general manager<sup>68</sup> commented, "Ours is a joint venture and we can't let our partner control everything. If we do exactly what the expatriate manager asks, it is 'co-operation'. If we don't, it is not – that is ridiculous. We are operating the joint venture in China and we have to do things the Chinese way. The advanced Western management system must adapt to the Chinese environment and overseas partners should learn to adapt to Chinese partners."

Another Chinese deputy general manager<sup>69</sup> of a manufacturing joint venture admitted that there were instances of uncooperative behaviour in his venture. He said that the joint venture partners had made a deal to share management, and each party was in charge of some particular areas of operation. But because of some differences and conflicts in the overall strategy, there were frequent conflicts between the Chinese and overseas partners

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<sup>67</sup> Expatriate Manager 5, Dalian Southcorp Can. Co. Ltd.

<sup>68</sup> Chinese Manager 26, Dalian Lushan Health Centre Co. Ltd.

<sup>69</sup> Chinese Manager 1, Dalian North Pacific Can Co. Ltd.



in joint operation. The initial harmony of the relationship had been affected. The quality of communication between joint venture partners had become increasingly difficult.

An American assistant general manager<sup>70</sup> said that he and his Chinese partner took charge of different operational areas of the venture. There was no communication at all between the two parties about the areas under their control. In this joint venture, the American partner provided two production lines and the technology for manufacture and was in charge of production, whilst the Chinese partner was in charge of accounting and sales departments. This manager said, "We operate like two completely different organisations and the overall working communications between us are based on paperwork. We have no joint meetings and not even any personal communications. We did try to improve the situation from my side at the very beginning, but all these efforts failed. We could not understand why. I personally don't think this joint venture will last long. We will have to develop our long-term strategy ourselves."

#### ▪ **Conflicts over Decision-Making**

Both the Chinese and the overseas joint venture managers interviewed complained that decision-making was interrupted by their partners or the local government. One Japanese general manager<sup>71</sup> pointed out that when their joint venture was losing money, he planned to reduce all employees' pay, including his own, but his plan was not accepted by his Chinese partner, and this decision was backed by the local government. This Japanese general manager therefore had to operate at a loss. One American general manager<sup>72</sup> said that his company used to have a very high turnover rate of sales staff because of low pay. He worked out a competitive salary and bonus package to keep the staff, but it was rejected by the Chinese partner, who was backed up by the local government. The reason given was that this package would have given sales staff a level of pay even higher than that of the Chinese deputy general manager. The company eventually solved this problem after the American partner managed to gain 100% ownership of the venture.

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<sup>70</sup> Expatriate Manager 1, Dalian North Pacific Can Co. Ltd.

<sup>71</sup> Expatriate Manager 6, Le Café Igosso Co. Ltd.

<sup>72</sup> Expatriate Manager 5, Dalian Southcorp Can Co. Ltd.

▫ **'Transfer Pricing'**

The greatest concern of the local authorities, as one official<sup>73</sup> claimed, was the 'transfer pricing' problem. It was commonplace in Dalian that in export-oriented ventures, most overseas partners controlled the sales of products and the import of raw materials or components. Overseas partners, mainly Japanese, Korean, American, European and Hong Kong investors, were likely to make a profit by under-pricing exports and over-pricing imports, and the profits were usually retained abroad.

As has already been shown from the questionnaire survey data, 59 of the 103 joint ventures surveyed were unprofitable at the time of the survey. In this regard, most Chinese partners interviewed held their overseas partners responsible for the loss. The key complaint lodged by Chinese partners was the practice of 'transfer pricing.'

It was significant that most Chinese managers from joint ventures in which overseas partners held majority stakes claimed that their overseas partners were playing the game of 'transfer pricing'. One Chinese deputy general manager<sup>74</sup> said, "Our American partner has completely controlled the overseas procurement and sales. They purchase components and parts from their parent company or other sister branches at a higher price than they should be and they sell the joint venture's products to their overseas dealers at a lower price than they should be. They make money outside China and at the same time leave the joint venture losing money for five years. We cannot afford the continuous loss of money any more and we are doing things to fight against it."

In contrast, overseas partners claimed that their Chinese partners were responsible for losing money because of domestic customers' failure to pay on time. A Korean general manager<sup>75</sup> said that his Chinese partner took charge of the domestic sales through the sales workforce of its parent company. The customers paid the parent company, and this payment in turn should have been relayed to the joint venture. However, there were always arrears of payment to the joint venture. The longest delay was 18 months. As a

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<sup>73</sup> Official 13, Dalian Ganjingzi District Committee of Foreign Trade and Economic Cooperation

<sup>74</sup> Chinese Manager 20 Dalian Polyclad Company Ltd.

<sup>75</sup> Expatriate Manager 3, Dalian Jianchang Footwear Co. Ltd.

result, this Korean manager said that he had had to look to increasing overseas sales, and this upset his Chinese partner very much. In a separate interview, the Chinese deputy general manager<sup>76</sup> from the same venture said that it was true that there were substantial arrears, because their customers had no money to pay. He also said that his Korean partner always thought it was his parent company that deliberately obstructed the payment to the joint venture, but that this was not true. As far as the increase in overseas sales was concerned, this manager said, "We know that our partner has been engaged in 'transfer pricing' through overseas sales. We will not tolerate under-priced exporting anymore. We must be in control of domestic sales."

One official<sup>77</sup> revealed that having known overseas joint venture partners were keeping profits abroad, thus leaving the Chinese partners losing money for a long time, Chinese partners were fighting against devious 'transfer pricing', even by some illegal means. This official told a story about a Dalian-based Chinese/Japanese joint venture whose Chinese partner was a Heilongjiang-based state-owned company. The venture had been unprofitable for four years and the Chinese partner could not stop the Japanese partner playing at 'transfer pricing'. On the Japanese side, enjoying the benefit of the 'transfer pricing', they asked for further injections of capital several times, and the requests was refused again and again by the Chinese partner. Eventually, the Japanese partner offered to buy out the joint venture from the Chinese counterpart. Taking advantage of the fact that the Japanese general manager was on holiday in Japan, the Chinese deputy general manager copied the Japanese manager's signature and obtained a bank loan against the fixed assets of the joint venture. The USD\$8 million loan was then transferred to the Chinese partner's parent company, which it used to make investment in another business. Returning from his holiday, the Japanese general manager found the joint venture was now wholly owned by the Bank of China. On the other hand, this official said that in domestic market-oriented joint ventures, where Chinese partners controlled majority stakes, they would make their money using the same transfer-pricing practice in domestic

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<sup>76</sup> Chinese Manager 11, Dalian Kun Chang Footwear Co. Ltd

<sup>77</sup> Official 10, Dalian Ganjingzi District Committee of Foreign Trade and Economic Cooperation.

sales and raw materials procurement. The co-operation between the Chinese and overseas partners was disappointing.

Several overseas managers expressed the view that they were not against indigenous sourcing of raw material, which they had actually practised for several years. The problem was that the quality of local materials was unpredictable. They also said the price their Chinese partners received was not competitive.

▪ **Performance of Wholly Owned Ventures and ‘Shell’ Joint Ventures**

The findings of the in-depth interviews supported the questionnaire survey results that wholly owned enterprises converted from joint ventures outperformed existing joint ventures. According to the questionnaire survey, among Chinese-partner controlled ventures (51% stake or above) and overseas-partner controlled ventures (51% stake or above) the percentage of unprofitable ventures was the same (63%). However, 14 out of 15 wholly foreign-owned ventures (converted from joint ventures) were making profits. This indicated that a complete control might deliver better performance.

Interviews with officials from local authorities further confirmed the better performance of wholly foreign-owned and wholly Chinese owned enterprises, which had converted from joint ventures. Several lower-level officials<sup>78</sup> disclosed that most shell joint ventures were considered profitable.

An expatriate general manager claimed, “I had a very hard time with my Chinese partner. Everything seemed difficult and complicated at that time. I am really happy that the joint operation is over. I now wholly own this venture. I have already made profits. My own Chinese staffs are excellent and reliable.”

Another Chinese manager<sup>79</sup> said, “This venture is now wholly owned by the foreign partner. I used to represent the Chinese partner but have been selected to continue

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<sup>78</sup> Officials 5,6,7,8,13 from the local authorities.

<sup>79</sup> Chinese Manager 4, Dalian Pfizer Pharmaceuticals Ltd.

working in the venture. We have been making profits before, but the performance now is much better than that under joint operation. Things are a lot more simpler and straightforward now. There is no difference in terms of domestic sales, as we are still selling 90% of our products on the domestic market. Most important, our salary and wages are several times higher than before and we can purchase apartments with company loans, which was absolutely impossible with a joint venture. I personally think that wholly owned ventures are not only better off but better”.

A Chinese general manager<sup>80</sup> claimed that since his Hong Kong partner left, he had achieved an organisational restructuring, which greatly improved the performance of the venture. Another four Chinese general managers<sup>81</sup> frankly asserted that these shell joint ventures had no real overseas partners. But they all further confirmed that they had a very reliable and accountable overseas business partner as their sole sales representative abroad. Their ventures were very profitable and had few internal problems. They further claimed that they never thought about entering into a real joint venture, as they thought the shell joint venture was the best form for private Chinese businessmen. The only challenge for them was to obtain government loans to expand their production capacity.

## **(2) Expatriate Staff**

Some Chinese partners complained about the undue number of expatriate staff in their joint ventures and considered them a major reason for losing money, simply because they were too ‘expensive’. One Chinese manager<sup>82</sup> said, “Expatriates are too expensive when compared with what they have done for us. We could make money right away if we sent them back home”. Most overseas partners interviewed conceded that expatriate staff were expensive, but said they were necessary and important to overseas partners in exercising control over joint operations.

Several expatriate managers confirmed in the interviews that, because of constant pressure from their Chinese partners, they had to reduce the number of expatriate staff to

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<sup>80</sup> Chinese Manager 2, Dalian Deli Medical Materials Co. Ltd.

<sup>81</sup> Chinese Managers 17, 18, 30 from Lingfa Food, Far East Tools, and Zhuyang Paper.

<sup>82</sup> Chinese Manager 1, Dalian North Pacific Can Co. Ltd.

reduce cost, and still obtain further cooperation. But, most overseas partners had indomitably resisted the pressure to recruit replacements from their Chinese partner's own parent companies.

There had been a tendency for Chinese and overseas partners to agree with each other on recruiting a third party Chinese general manager to run the joint venture, while still fulfilling the indigenous personnel strategy. Those overseas partners with controlling stakes seemed to prefer to recruit less expensive overseas Chinese personnel to replace expatriate general managers. An American general manager<sup>83</sup> said that he had tried to replace all three of his expatriate department managers, with a Canadian Chinese manager and two Hong Kong Chinese manager. They were all Western-educated management staff and, most importantly, were Mandarin speakers. However, his Chinese partner strongly disagreed with the recruitment of overseas Chinese managers for the joint venture, saying that it would only make things worse to bring in overseas Chinese managers, who thought they understood China but actually did not. Nevertheless, the American general manager went ahead with the replacement, and the Canadian Chinese manager was dismissed only three months after his appointment. The Chinese acting general manager<sup>84</sup>, who recently replaced the above-mentioned Canadian Chinese as general manager, said that factory workers had staged a strike to protest against the rudeness and unreasonable operational decisions of the Canadian Chinese manager, and that the strike had been supported by an American technician and the Hong Kong Chinese Accounting Manager.

On the other hand, several Chinese deputy general managers reported that there were also cases in which expatriate managers were brought back after overseas joint venture partners successfully converted their ventures into wholly owned ones.

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<sup>83</sup> Expatriate Manager 5, Dalian Southcorp Can Co. Ltd.

<sup>84</sup> Chinese Manager 23, Dalian Diesel Marine Co. Ltd.

### **(3) Workforce Recruitment**

Recent years have witnessed a profound change in the recruitment of both office staff and workers. More and more overseas investors, especially those with majority stakes, have begun to recruit skilled and unskilled workers from the local job centres rather than from their Chinese partners' parent companies. An American general manager<sup>85</sup> and a Korean general manager<sup>86</sup> both confirmed that they had taken on middle-level managers and workers from their Chinese partners in the early stage of their joint ventures. Then, they recruited all their staff from the local job centres. Because of the shift in recruitment, the general trust between Chinese and overseas partner was lost.

In contrast, some Chinese general managers of Chinese-controlled joint ventures (51% stake or more) said that they preferred to employ workers from their parent companies, as they were skilful and generally familiar with the products of the joint ventures. They said there was not difficult for them to select the best managers and skilled workers from their parent companies, although they could recruit some key technicians from the local job centres when necessary.

It was rather surprising that neither Chinese nor expatriate managers complained of the problem of overstaffing, which was an important topic of the literature in the 1980s (Cohen 1982; Park 1983; Ruggles 1983; Horsley 1984; Moore and Scogin 1986; Shenkar 1990). But both Chinese and overseas partners stressed that with the relaxed state policy, Chinese partners have less power to overstaff their joint ventures.

### **(4) Culture Related Issues**

In the interviews, both Chinese and overseas managers admitted the existence of cultural barriers, these can be summarised as follows:

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<sup>85</sup> Expatriate Manager 5, Dalian Southcorp Can Co. Ltd.

<sup>86</sup> Expatriate Manager 3, Dalian Jianchang Footwear Co. Ltd.

▫ **Different Ways of Thinking**

According to one American general manager<sup>87</sup>, Western managers had a thinking process that was completely different from that of Chinese managers. He said, “For example, if there is a problem in operation, Western managers focus on different options for a possible solution, while Chinese managers insist on finding out whose fault it is and like to see someone being punished. They ignore the need to seek a solution to the problem.” In another case, this American general manager once found that the quality of some products did not reach the required standard and he therefore decided to destroy them. But his Chinese partner was against this decision and quietly sold them on the domestic market. The American manager admitted that each party had been making great efforts to change the attitude of the other party, but without success.

When this issue was raised with the Chinese deputy general manager of the same company in a separate interview, the Chinese manager explained that, “In China’s state-owned companies, goods are all graded into categories: the best, the second best, and even the third best etc. The prices are accordingly different and there are always potential customers who opt for goods of a particular level of quality. So it is normal business practice to sell on such substandard goods and the company can make money out of it. I just can’t understand why the American manager could not accept this”.

Another American general manager<sup>88</sup> complained that his Chinese partner had been trying to purchase inferior components from its parent company. The only explanation given by his Chinese partner was that the parent company offered a very reasonable price. In another instance the Chinese partner transferred the joint venture’s technology to its parent company without informing the overseas partner.

An expatriate general manager<sup>89</sup> said, “We are not here to change China and the Chinese people. We should learn about China, the Chinese culture, and the Chinese way of doing business. We have adjusted our policy and provided uniforms, apartments and three

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<sup>87</sup> Expatriate Manager 5, Dalian Southcorp Can Co. Ltd.

<sup>88</sup> Expatriate Manager 7, Supertech Electronic Engineering Corp.

<sup>89</sup> Expatriate Manager 5, Dalian Southcorp Can Co. Ltd.



meals a day for the Chinese factory workers according to the Chinese welfare system. We are very patient people. But our Chinese partner would not adapt in any respect to suit our side. It seems to be taking too long to adapt to the Chinese way of doing business. We must find a way to do things in our own way. The joint strategy is not suitable for us anymore. Our new long-term strategy in China will be based on a wholly owned venture.”

▫ **‘Guanxi’ (Connections)**

An American manager<sup>90</sup> said, “*Guanxi* is a network of friendly relationships and business interests. We have understood the Chinese way of doing business – make friends first, then do business. It is possible for a foreigner to make friends, but not possible for a foreigner to enter the *guanxi* network.

Another American general manager<sup>91</sup> said, “*Guanxi* is necessary for doing business in China. But we don’t need a Chinese partner just for entering this network. We do benefit from some business *guanxi* through the Chinese partner, but it also causes us a lot of trouble in the joint operation. Nowadays, we can employ good quality Chinese staff ourselves to develop the necessary business *guanxi* with government departments, customers, and suppliers. They are our own employees, who are very loyal and much better than a Chinese partner.”

#### **6.4 Evolution of Joint Ventures**

Throughout the interviews with Chinese and expatriate managers, it was clear that there was frequently a strong intention on the part of the venture partners to end their joint operations. However, it was up to the overseas partners to make the initial move. The Chinese partners actually had no real power to terminate joint ventures, as they had to obtain permission from the local authority, which, according to one Chinese deputy

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<sup>90</sup> Expatriate Manager 1, Dalian North Pacific Can Co. Ltd.

<sup>91</sup> Expatriate Manager 4, Dalian Polyclad Co. Ltd.

general manager, would not allow the Chinese parent company to initiate a move to terminate joint ventures.

### **(1) From Joint venture to Wholly Foreign-Owned Enterprise**

According to a senior official from the Dalian Municipal Government, who was responsible for foreign direct investment in 1998<sup>92</sup>, “It seems that in the last five years, there has been a strong tendency for more overseas venture partners to fight for a majority ownership in a joint venture. Most of them have made efforts to officially convert their joint ventures into wholly foreign-owned ventures”.

Several Chinese deputy general managers from ventures in which the Chinese party holds a minority stake said that joint operations with overseas partners were full of problems and they made no profits for three to five years. Their parent companies were trying to pull out of the joint ventures, with backing from local government.

One Chinese deputy general manager<sup>93</sup> said that his parent company invested USD\$10 million, to acquire a 30% stake in the joint venture in 1995. The joint venture made no profits for three years. He believed that his American partner had made their profits through transfer pricing. The Chinese partner had no power on the board of directors nor in the operation of the company. As the deputy general manager, he was only in charge of factory security, house-keeping and the cafeteria. There was little mutual trust. The Chinese parent company had planned to pull out a year before had not been able to obtain the approval from the local government at that time. Only recently had the local government approved their request to let the American partner wholly own the venture.

Interviewed on a separate occasion, the American general manager<sup>94</sup> from the same joint venture revealed that the joint venture did very well in the early stages. However, in a very short period of time, he had found that his senior Chinese deputy, responsible for production, proved to be a barrier. He had been expecting assistance and support from

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<sup>92</sup> Official 1, Dalian Municipal Commission of Foreign Trade and Economic Cooperation.

<sup>93</sup> Chinese Manager 20, Dalian Polyclad Co. Ltd.

<sup>94</sup> Expatriate Manager 4, Dalian Polyclad Co. Ltd.

his local partner, not problems, but his Chinese partner had deliberately made everything very complicated. With threats to withdraw from the venture and with backing from the local government, the Chinese parent company had to replace its Chinese deputy general manager in the joint venture twice. With each replacement, the deputy general manager was given fewer responsibilities. The American manager said that he understood his Chinese partner was upset about their representative being sidelined in this way, but he had no other option. He also disclosed, "I am planning to purchase all the shares from the Chinese partner and to wholly own the venture. Things will be simpler then."

A Chinese manager<sup>95</sup> from a pharmaceutical joint venture said that there was a very good relationship between the Chinese and the American partners in his firm. The joint venture had started making money from the second year of operation. However, the Americans wanted to have a wholly owned venture, and had threatened to pull out and move to Shanghai. The Chinese manager said the negotiations should be between the local government and the overseas investor and that Chinese partner could do nothing about it. The Chinese party was told by the local government to reduce its stake from 49 per cent to 30 per cent, then from 30 per cent to five percent. The Chinese partner had now been forced out of the business by the American partner and the local government, simply in order to keep this venture within the region.

## **(2) From Joint Venture to Wholly Chinese-Owned Enterprise**

Several Chinese managers revealed that according to unpublished records, about 2000 joint ventures were closed down in Dalian in the 1990s, especially during the Asian financial crisis of 1997 – 1998, among them some 500 Korean companies. These Chinese managers said that in most cases, after the overseas investor pulled out, the Chinese partner had to take over the operation. The local government worked hard to prevent those ventures from closing down, although some of the ventures still 'disappeared'. According to one government official<sup>96</sup>, "Although some overseas investors have left, those joint ventures are still there and Chinese partners have taken them over and keep

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<sup>95</sup> Chinese Manager 4, Dalian Pfizer Pharmaceuticals Ltd.

<sup>96</sup> Official 5, Dalian Economic and Technological Development Zone.

them running. That is why the official number of foreign-invested projects goes up all the time. It never goes down.”

### **(3) From Joint Venture to ‘Shell’ Joint Venture**

From the questionnaire survey, it appeared that 30 joint ventures in Dalian had not had any expatriate staff, even from the very beginning. Some overseas partners completely withdrew their expatriate staff from the joint ventures. This was unusual since, according to the literature, overseas partners always tended to use their own personnel to control the business.

#### **▪ Joint Venture without Overseas Partner**

In interviews, some Chinese managers frankly admitted that there were some ‘shell’ joint ventures, especially those involving private Chinese partners. Because of the problems such as marketing, capital contributions, internal conflicts, distrust, and different objectives, as well as the impact of the Asian financial crisis, some overseas investors had pulled out and abandoned their Chinese partners. It was believed that some overseas partners had already recovered their initial investment by making money from importing equipment for the joint ventures, and so they simply withdrew from the joint business.

One Chinese manager<sup>97</sup> claimed that the Japanese partner and the Chinese partner in his joint venture were not cooperating well enough and the business was not successful. Eventually, the two sides converted the joint operation into a strategic partnership. The Japanese partner transferred half of its 60 per cent stake to the Chinese partner. The Chinese side was to pay for the stake with the products. The Japanese partner withdrew all five of its expatriate staff and left the venture for the Chinese partner to operate. In exchange, the Japanese partner obtained the sole dealership in the venture’s products outside China and was also responsible for purchasing raw materials/components for the joint venture. This Chinese manager said, “Things are simpler now and I am confident in the future of this venture. My Japanese partner is happier, too. Actually, there are many cases in which partnership cooperation derives from former joint venture cooperation”.

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<sup>97</sup> Chinese Manager 22, Dalian Zhongying Precise Casting Co. Ltd.

A Chinese office manager<sup>98</sup> of a former China/Korea joint venture said that his Korean partner went back to Korea on holiday in 1997 and they had not been in contact ever since. The Korean partner did not give any explanation for 'pulling out'. This Chinese manager believed it was closely linked to the impact of the Asian financial crisis in Korea. The venture is now wholly owned by the Chinese partner, but is still classified as a joint venture and receiving all the incentives appropriate to that status from the local government.

Four Chinese general managers, whose identities are concealed, admitted to me that their ventures were 'shell' joint ventures. They claimed that what they wanted was not really a joint venture but the government incentives, which were only granted to joint ventures. They were all quite profitable private businesses and would like to export their products to earn hard currency for importing advanced technology and equipment, as it would be too expensive to rely on state-owned import/export companies to do this. On top of that, one incentive granted to joint ventures by the government was a two-year tax holiday and another a 50 per cent tax deduction for another three years. To a profitable private company, a five-year tax holiday and deduction really meant a lot. Hence, they were all very keen to set up shell joint ventures.

I asked the four Chinese, separately, the same question: why they did not set up a real joint venture? They responded that they could not afford the complications of a real joint venture, and none wanted a foreign boss, so a 'shell' joint venture was best for them.

#### ▪ **Joint Venture without Chinese Partner**

According to central government regulations on foreign direct investment, since 1998, wholly foreign-owned enterprises have been restricted to the service sector, for example entertainment, real estate/property, and vehicle-repairing businesses. Consequently, many joint ventures had been set up in the service sector in the Dalian area.

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<sup>98</sup> Chinese Manager 7, Dalian Taiyangcheng Entertainment Co. Ltd.

One Chinese deputy general manager<sup>99</sup> of a joint venture which runs a recreation centre, said in the interview, "As you already know, the Korean partner has preferred a wholly owned enterprise to a joint venture. However, it was not permitted to set up a wholly owned company in the entertainment business. To get around this regulation, the Korean partner easily found a token Chinese partner and established a 'joint venture'. This means they just use the name of the Chinese partner, but actually wholly own the venture. They had to pay the Chinese partner for the use of the name but this proved worthwhile. The business is quite profitable and has no internal problems at all."

I had separate interviews with two Chinese managers, one<sup>100</sup> from a joint venture with a Hong Kong partner and the other<sup>101</sup> from a beauty salon jointly owned with a Taiwanese investor. Because wholly foreign-owned enterprises were not allowed in the sector, both joint ventures had a Chinese partner, but again only in name.

The Hong Kong and Taiwanese investors did not favour joint operations, and would have preferred to run the businesses by themselves. To encourage the inflow of overseas investment, the local government recommended two state-owned enterprises to them as Chinese partners. A deal was made in which the Chinese partners offered only their names to help in the formation of joint ventures, but would not become involved in the operations. In return, the two overseas investors had to pay the two Chinese partners between two and five percent of their annual profits.

There were several similar cases involving Japanese investors in the retail business (department stores). When the above projects were mentioned, a government official<sup>102</sup> commented, "We have to create jobs for local people. Sometimes, we have to keep one eye open and the other closed". She admitted that the local government had been unofficially encouraging shell joint venture practices in order to create jobs.

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<sup>99</sup> Chinese Manager 7, Dalian Taiyangcheng Entertainment Co. Ltd.

<sup>100</sup> Chinese Manager 16, Dalian Falong Industrial Co. Ltd.

<sup>101</sup> Chinese Manager 29, Dalian Kaiyue Beauty/Health Co. Ltd.

<sup>102</sup> Official 9, Zhongshan District Sub-Council of the China Council for Promotion of International Trade.

### ▪ **Joint Venture with Private Chinese Partner**

There were several joint ventures in the survey whose Chinese partners came from the private sector. In the interviews, their general managers quietly told me that I had picked the wrong person for research on joint ventures. They said that theirs were not real joint ventures. In many similar cases, the relevant government department knew they were not real joint ventures but took no action against them because they did create jobs.

One female general manager<sup>103</sup> of a garment manufacturing joint venture said that she had been a senior manager of the textile section of a state import and export company for about 15 years, and had many customers in Japan and Hong Kong. Three years ago, with the help of her *guanxi* (connections) in the local government, she managed to obtain a loan, and sent money to one of her Japanese friends/customers. This Japanese friend brought the money back to Dalian and set up this joint venture with her, which was actually her own business. The Japanese friend/customer had no actual investment in the joint venture but looked after the sales of her products in Japan. The business was quite profitable and both she and her Japanese friend/customer had benefited from the business.

## **6.5 Future Outlook**

### **(1) Unstable Joint Ventures**

Most Chinese managers of existing equity joint ventures expressed their frustration with joint operations. They had no confidence in the future of joint ventures and some found it hard to predict how the future of their joint ventures would develop. They believed that, sooner or later, equity joint ventures would be replaced by wholly owned enterprises, either run by a solo Chinese or an overseas partner. At the moment, overseas partners have already wholly owned a growing number of joint ventures. Several Chinese managers said that a joint venture could only work if it was run by a Chinese partner. In contrast, some expatriate managers said that it would be a potential disaster if they let their Chinese partners run their ventures.

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<sup>103</sup> Chinese Manager 10, Dalian Lanbao Fashion Dress Co. Ltd.

## **(2) Stable Joint Ventures**

One overseas manager<sup>104</sup> said, “We had a minority equity in the joint venture at first and no expatriate manager was involved in the operation. But we had a terrible experience with our Chinese partner in the joint operation. We had to modify our strategy – either to pull out of the venture or to gain a majority stake to run the venture with expatriate managers. We are really lucky because, with the assistance of the local government, we were eventually able to buy out all the shares and operate as a wholly owned enterprise. The long period of uncertainty is over.”

Managers from these wholly owned ventures and shell joint ventures converted from joint ventures were quite confident about their future operations in China.

## **(3) Significant Increase in the Number of Wholly Owned Enterprises**

About the prospects of foreign direct investment, one top official from the Dalian municipal government<sup>105</sup> said, “Joint ventures have lost their appeal to both Chinese and overseas investors. There are too many problems with joint ventures and overseas investors are no longer interested in the Chinese partners’ old factory buildings and out-of-date equipment. There is no doubt that in the coming years, wholly foreign-owned enterprises will be the dominant form of foreign direct investment in Dalian, as it is simpler in practice. Personally, I wouldn’t recommend the joint venture form to anybody. But, as a government official, I have to persuade both Chinese and overseas investors to set up joint ventures in Dalian because firstly, this is our central government’s policy, and secondly, the local government will receive 10% corporate income tax from joint ventures but will get nothing from wholly foreign-owned enterprises.”

Most local government officials expressed the same view that a joint venture was only a temporary business strategy for entering into the Chinese market. With the changes in China’s business environment in recent years, the number of wholly foreign-owned

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<sup>104</sup> Expatriate Manager 6, Le Café Igosso Co. Ltd.

<sup>105</sup> Official 1, Dalian Municipal Commission of Foreign Trade and Economic Cooperation.



enterprises is increasing while the number of joint ventures declines. As one official<sup>106</sup> said, "Apart from some restricted sectors, we expect to see a significant increase in the number of wholly foreign-owned enterprises in this region. The wholly owned enterprise form will certainly dominate the foreign direct investment in this region in the coming years. We will also see more wholly owned enterprises converted from joint ventures"

As the general manager<sup>107</sup> of Dalian Hualu Electronics Co. Ltd. said in an interview in the UK, "I am not interested in any kind of joint venture in China any more. My strategic objective is to be an international player. We are having difficulties in selling our products directly to Europe at the moment, because of the tariff policy there. We are planning to set up one or two operations in Europe in the next few years for sub-assembly of our products with components made in China. This model has proved to be successful with Japanese, Korean, and Taiwanese businesses. It is the only way to get around the tariff policy and to fully utilise our own production capacity at home."

At a reception<sup>108</sup> for a Chinese inward investment mission in London, the vice-president<sup>109</sup> of the China Haier Group said that he believed that the joint venture model was still useful to his group, but it would only be applied in a Western country, such as the USA, the UK or other European countries.

Only the director of the Dalian Association of Foreign-Invested Enterprises<sup>110</sup> claimed, in an informal discussion of the result of this joint questionnaire survey between the Dalian municipal government and myself, that: "I think joint ventures still have a chance in China if you have the right project, the right partner, the right strategy, and the right location, plus the right government policy."

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<sup>106</sup> Official 3, Dalian Economic and Technological Development Zone.

<sup>107</sup> Managing director of China Hualu Electronics Co. Ltd. (Special interview when he was on a business visit to the Northeast of England in Nov. 1999).

<sup>108</sup> Reception for Chinese inward investment mission hosted by Invest Britain Bureau, 22/08/2000

<sup>109</sup> Talk by a vice-president of China Haier Group at a reception for a Chinese inward investment mission hosted by Invest Britain Bureau, 22/08/2000

<sup>110</sup> Deputy Secretary-General of the Dalian Association of Foreign-Invested Enterprises

## 6.6 Conclusion

The negative aspects of China's transitional economy, such as the decline of foreign direct investment, difficulty in obtaining bank loans and an increase in unemployment, have had a strong impact on foreign direct investment in Dalian. Local government therefore has to relax its controls over foreign direct investment in order to achieve a greater inflow of foreign capital and create more jobs.

Both Chinese and expatriate managers indicated that the strategic objectives held by Chinese and overseas investors differed considerably, but since both parties wanted to make a quick deal at the beginning, the strategic differences were ignored in order to make a compromise at the negotiation stage. However, at the operational stage, all the strategic differences emerged and grew larger. Each party then started to do everything possible to influence the overall strategy for its own interests. These strategic differences have caused endless conflicts between Chinese and overseas partners.

With more relaxed state control over foreign direct investment, overseas partners have secured a better bargaining position. As a result, overseas partners have actively reformulated their strategies to obtain complete control over the businesses. The major part of this reformulation has been converting the joint ventures to wholly foreign-owned ventures. The Chinese partners, however, could only passively react to these strategic changes.

## **Chapter 7            Discussion of Survey and Interview Results**

### **7.0    Introduction**

In this chapter the empirical findings presented in Chapter Five (questionnaire survey results) and Chapter Six (in-depth interviews) are discussed. Analysis of the survey findings will be guided by the research framework developed in this chapter (Figure 7.0-1). This will enable us to identify to what extent the findings of this study confirm earlier findings of other authors. It will also shed further light on the evolving pattern of China-based joint ventures.

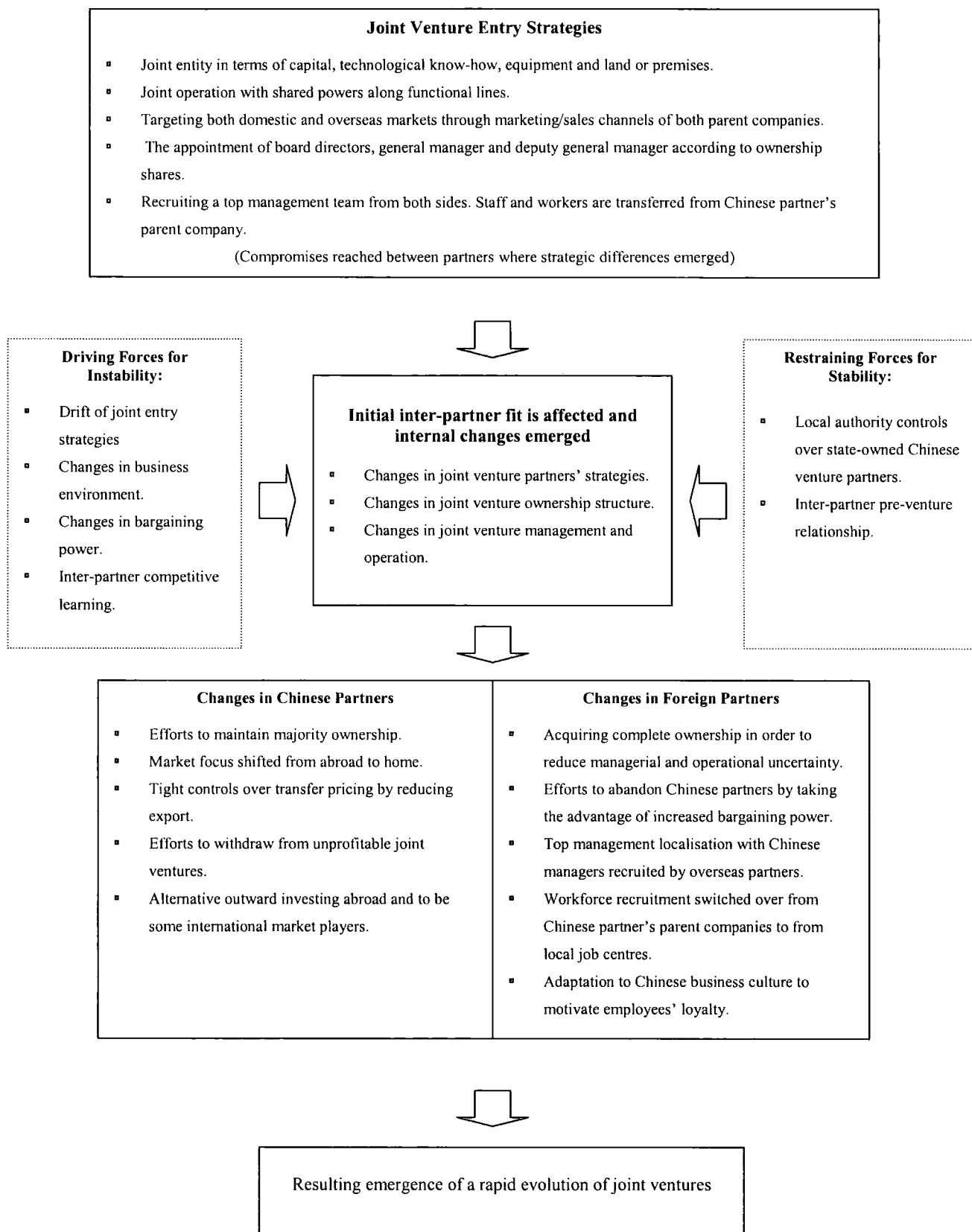
### **7.1    Drift of Joint Venture Entry Strategies**

It was established in Chapter Three that allowing China-based joint ventures to exist was a political compromise among the top Chinese leadership in the late 1970s. It was intended to promote rapid growth and economic efficiency by means of the absorption of foreign capital, technology and management skills while at the same time guarding against loss of control to foreign capitalists. China's early joint venture policy was formulated in this light, which had a significant impact on foreign investors' market entry strategies. Chinese and foreign partners alike had to put aside their strategic differences to go for a joint market entry strategy.

As a result, joint venture partners solicited capital from both Chinese and overseas banks, targeted both domestic and overseas markets, and entered into a joint operation with shared power along functional lines.

Previous studies (Daniels 1986; Davidson 1987, Tai 1988; Beamish 1989; Pearson 1989; Shenkar 1990, Aiello 1991; Bleeke and Ernst 1991; Newman 1992; Glaister and Wang 1993, Kim 1996) argued that the Chinese and overseas partners had pursued their own individual strategies during the operation stage, producing conflicts and differences over technology transfer, exporting, equity sharing, management styles, etc.

**Figure 7.0-1 The Research Framework Developed**



In this study, the survey and interview results showed that there were strategic differences at both the early stage of joint ventures and at the time of the survey. Respondents admitted that they had to make compromises over their strategic differences at the early stage of setting up a joint venture. This finding supported the argument in the literature that joint ventures were facilitated by an entry strategy compromise, which satisfied both parties at the very beginning. Table 7.1-1 presents a summary of the result of the questionnaire survey, which revealed that venture partners had made some compromises over nearly all the strategic differences at the early stage of joint ventures.

**Table 7.1-1 Summary of JV Partners' Strategic Differences and Compromises**

Objectives	Overseas partners	Chinese partners	Compromises
Motivation for setting up joint venture	Capital profit	Political, economic and social benefits	Both
Market orientation and marketing/sales channels	China's domestic market and marketing channels of Chinese partner's parent company	Overseas market and marketing/sales channels of overseas partner's parent company	Targeting both domestic and overseas markets using the marketing/sales channels of both parent companies
Capital	Expecting bank loans from China's domestic banks	Expecting foreign capital or bank loans from overseas banks	Foreign capital together with loans from Chinese banks
Equipment	Intent on providing some old or second-hand equipment.	Expecting latest and brand new equipment.	Some out-of-date equipment together with relatively new equipment.
New technologies transfer	Prefer single, not advanced, high valuation.	Prefer latest, series, dynamic, low valuation.	Relatively advanced, more items, reasonable valuation.
Top management and operation	Maximum control by expatriate managers.	Learning, joint management, maximum control of operation along functional lines.	Appointment of board of directors, general manager and deputy general manager according to ownership shares.
Recruitment	Recruiting joint venture's top management team from overseas, and office staff and workers from local job centres.	Transferring top management team, office staff and workers from the Chinese partner's parent company to the joint venture.	Recruiting top management team from both sides. Office staff and workers are transferred from Chinese partner's parent company.

However, in the personal interviews, most venture managers claimed that former strategic differences surfaced, simply because each venture partner was attempting to influence the operation in favour of their own strategic interests or to gain strategic advantage over the other, rather than work together for mutual benefits. As a result, these compromises in the early stage were removed during the operation stage and venture partners pursued their own individual strategies.

Seven expatriate managers interviewed were concerned about their Chinese partner's failure to secure loans from Chinese banks, and frustrated by the marketing and sales channels of the Chinese partner's parent company. They also complained about their Chinese partner's uncooperative attitude towards joint operations. On the other hand, most officials and Chinese managers interviewed expressed their disappointment with the overseas partners, in particular with their transfer pricing and failure to transfer technology. Of the Chinese managers interviewed, 26 complained of their expatriate counterpart's domineering attitude. Any trust, which had been developed at the entry stage, was put in question and affected overall joint operation. These strategic differences started to cause poor financial performance and failure of shared control.

### **(1) Poor Financial Performance**

Strategic differences affected the financial performance of the ventures. The questionnaire survey indicated that out of 103 joint ventures, only 38 (37%) were making a profit. The other 65 joint ventures (63%) were not profitable. Nevertheless, the questionnaire survey and eight personal interviews revealed that some of the 38 profitable joint ventures were actually 'joint ventures' which had already been converted into wholly owned ventures or 'shell' joint ventures, so the actual percentage of unprofitable joint ventures could exceed 63%.

All the seven expatriate managers interviewed accused their Chinese partners of making inadequate contributions towards the joint operation, and of deliberately making the joint operations difficult and complicated. Four of them clearly stated that they could not tolerate their Chinese partners' lack of cooperation any longer. As a result, overseas

partners shifted their strategies from joint operation to complete individual control of the venture by requesting majority stakes or by buying out their Chinese partners. In personal interviews, Chinese and expatriate managers revealed that in many cases, overseas investors had had to withdraw their interests from the joint businesses before 1995, because China's institutional environment at that time did not allow them to buy out Chinese partners or even to be majority shareholders. Therefore, many unofficial ownership transfers quietly took place between venture partners at that time. In contrast, three expatriate managers (who have already wholly owned these ventures) said that with state control over joint ventures being relaxed, this was no longer a problem for overseas partners after 1995.

On the other hand, 24 out of 30 Chinese partners interviewed criticised their overseas partners for unprofitable joint operations, and complained about the cost of expatriate managers and staff, who were not only too expensive but were also believed to be responsible for false 'transfer pricing' and repatriating profits outside China (the other 6 Chinese managers attributed operation losses to the Asian financial crisis). In several cases of chronic operational losses, the overseas partners requested further injections of capital into joint ventures, which were repeatedly refused by the Chinese partner.

When asked 'What are you going to do with the operation losses?' two expatriate managers answered that the losses would be the price paid for market entry, but that they would enforce individual control. In contrast, Chinese partners claimed to shift their focus from export to domestic sales in order to increase control. In six cases, the Chinese partners expressed their intention of transferring a greater ownership share to their overseas partner, or even of pulling out of the ventures altogether.

## **(2) Underperformance of Shared Control**

It was established in previous studies (Shenkar 1990; Teagarden 1990; Beamish 1993; Osland and Cavusgil 1996; Child and Yan 1999) that partners had split control along functional lines based on ownership share when ventures began. However, both Chinese and expatriate managers from 65 unprofitable and break-even joint ventures claimed that

they became frustrated with shared control. There were another 22 Chinese managers from profitable ventures who also complained about shared control along functional lines (the other 16 venture managers interviewed responded that they were all right at that moment, although they did have problems). All seven expatriate managers interviewed admitted that it was impossible for overseas partners to increase their control over joint operation if they were minority shareholders before 1995.

In contrast, with the impact of the relaxation of state control over foreign direct investment after 1995, each partner started to exercise independent control. In the battle, most overseas joint venture partners were in a better bargaining position and sought to gain independent control over the venture operations by obtaining a majority stake. Similarly, the Chinese partners preferred to have complete control of joint ventures, without expatriate managers. Chinese partners had been making efforts to squeeze them out of the joint operations. Although it was often hard for them to control their expatriate managers, 17 Chinese partners admitted that they had been making efforts to dominate the operation, as they thought they could do much better without the overseas partner's involvement. Nine Chinese partners clearly indicated that it might be ideal for them to wholly own their businesses, but because they did not have sufficient finance, they had to maintain their partnership until they accumulated more. In six cases, Chinese venture partners had been seeking to make deals with other domestic partners in order to buy out their overseas partners and to become a domestic joint venture. As a result most joint ventures were actually controlled by one partner.

In summary, the findings of this study indicated that a drift of joint venture entry strategies had emerged from the ventures' internal strategic uncertainties and joint operational difficulties. However, although this strategic drift had great potential for driving ventures to instability, it was not strong enough to drive a fundamental change in joint ventures before 1995, where the institutional environment in China was a major restraining force against any fundamental changes within joint ventures (for example, transfer of venture ownership shares from Chinese to foreign partners was restricted by the central government). The evidence was, as discovered in this study, that many venture



partners had to make ownership share transfers quietly and unofficially. Nevertheless, those unofficial ownership transfers implied that joint venture internal difficulties were accumulating and would work as a major driving force towards instability of ventures once they joined with external driving forces. In the next section, the two sets of driving forces, which influence the stability of joint ventures, will be discussed.

## **7.2 Driving Forces for Joint Venture Instability**

It was established in Chapter Two that previous studies based on the dynamic nature of international joint ventures (Lawrence and Lorsch 1967; Lecraw 1984; Harrigan 1986; Yan and Gray 1994; Vachani 1995; Yan and Luo 2001) identified four major explanations for structural changes and instability in joint ventures: apart from poor financial performance, which was mentioned in the last section, the rest are unexpected contingencies, changes in venture partners' bargaining power, and inter-partner competitive learning.

This research has identified several driving forces of joint venture instability, which supports the argument in previous studies and the emerging trends of China's business environment. The findings clearly indicated that joint venture partners had been positively or passively altering their strategies in order to fit the new business environment, and this had brought about changes in joint ventures. The driving forces for joint venture instability will be discussed in what follows.

### **7.2.1 Changes in China's Business Environment**

#### **(1) Adverse Impacts of Economic Reforms**

Existing studies (Luo 2000; Peng 2000; Child and Tes 2001) have indicated many positive implications of China's economic transition. In the transition from plan to market, China's attractiveness to overseas investors has increased. There is more flexibility in choosing market entry and operating modes. However, there exists a negative impact on international businesses, particularly China-based joint ventures. The

Chinese economy, as a whole, slowed down in the mid-1990s, partly because of inadequate reforms of the economic structure and state-owned enterprises, which led to increased unemployment for domestic workers and financial difficulties for foreign-funded enterprises. Moreover, foreign direct investment decreased, owing to the impact of the Asian financial crisis.

▪ **Increasing Unemployment**

Although China's economic reforms have achieved some positive results, one direct result has been the increasing number of company bankruptcy. All 13 Dalian government officials interviewed confirmed that, as one of China's major industrial bases with many large state-owned enterprises, Dalian had been severely affected by the reforms. A growing number of inefficient state-owned factories has been closed down with a huge number of workers laid off. The local authority came under strong pressure to turn the declining regional economy around and create jobs.

The findings from interviews with government officials suggested that the Dalian authorities turned mainly to foreign direct investment for a solution. Relevant government departments made great efforts to relax the criteria for setting up joint ventures or wholly foreign-owned enterprises, with a view to encouraging the creation of jobs for unemployed workers. Moreover, the relaxation of control of foreign direct investment also provided fresh opportunities for existing joint venture partners to reformulate their strategies, including changes within joint ventures.

▪ **Financial Difficulties for Joint Venture Projects**

At early steps of joint venture operation, Chinese and foreign partners made compromises to obtain loans from both Chinese and overseas banks. In many cases, loans from Chinese banks used to play an important role (Killing 1983; Dutta and Merva 1990). But local government officials and joint venture managers interviewed claimed that joint ventures have not been able to obtain loans secured on their investment in real estate since the mid-1990s, as banks have only extended loans to rescue failing state-owned enterprises. This presented a major problem for most joint ventures. The shortage of bank loans has

directly affected operations of joint ventures and halted the start-up of new joint ventures. Several Dalian officials stressed that, in the 1980s, there had been many complaints about the delays by overseas investors in paying in their capital to set up joint ventures. But in the middle and late 1990s, Chinese partners had that problem, too. The local authorities then had to encourage transfer of venture ownership shares from the Chinese to overseas partners in order for them to survive the financial difficulties. Obviously, such difficulties put many Chinese partners from state-owned enterprises in a less favourable bargaining position.

#### ▪ **Decline of Foreign Direct Investment**

Dalian has been one of the 14 major coastal cities opening to the outside world since 1984. Approximately 7054 foreign investment projects, including 1395 overseas representative offices, had been approved by the Dalian municipal government by the end of May 1997. This made Dalian one of the five cities in China with the highest concentration of foreign firms and representative offices. Foreign direct investment projects have created about 300,000 jobs in the region. As a result, since the late 1980s Dalian has relied heavily on the inflow of foreign direct investment and exports for job creation. According to 13 Dalian officials interviewed, most overseas investors in Dalian are from South-East Asian countries. The Asian financial crisis seriously affected not only foreign direct investment from these South-East Asian countries, but also exports from Dalian-based foreign-funded enterprises to these countries.

One senior official revealed that about 2000 joint ventures were terminated by the end of 1997. Other officials and joint venture managers interviewed confirmed that the Asian financial crisis was the major reason for most of the terminations. To reverse the decline, the Dalian authorities have had to relax the control over foreign direct investment by reducing the minimum capital requirement for overseas partners to set up joint ventures. The authorities have also further opened up the domestic market to existing joint ventures.

## **(2) Relaxed Control over Foreign Direct Investment**

Profound changes took place in China's business environment in the 1990s. These included the decline of the national/regional economy, the reduction in inflows of foreign direct investment, and the mounting pressure for job creation. These changes, in turn, have induced changes in joint ventures.

### **▪ Reduced Differences between Joint Ventures and Wholly Foreign-owned Enterprises**

In the 1980s and the early 1990s, a certain proportion of joint venture products could be sold to the domestic market. But a wholly foreign-owned enterprise, despite its other advantages, was not allowed to do so, or was only allowed to do so under very strict conditions (China Joint Venture Law 1979; China Wholly Foreign-Owned Enterprise Law 1986; Peng 1989; Vanhonacker 1997). In 1995, with controls being further relaxed, the Dalian government lifted restrictions to allowed wholly foreign-owned enterprises to sell their products to the domestic market. Except for restrictions on publishing, broadcasting, domestic commerce and insurance, as well as telecommunications sectors, the differences between a joint venture and a wholly foreign-owned enterprise were reduced in terms of venture duration, taxation and domestic sales. The reduced number of differences between joint ventures and wholly foreign-owned enterprises was confirmed by Dalian government officials (Refer to Table3.3-1, Chapter 3, p.83).

Market orientation and taxation are the two areas where major changes have happened. Before 1995, wholly foreign invested enterprises could only sell their products to the overseas market, but since 1995 they have been able to target both overseas and domestic markets. As far as corporate tax was concerned, before 1<sup>st</sup> July 1991, the overall corporate tax for wholly foreign invested enterprises was 50 per cent. (40% to the central government and 10% to local authorities). Since 1<sup>st</sup> July 1991, it has been the same (33%) as that for joint ventures (See Tale 3.3-1 at page 83). Thus, when compared with wholly foreign-owned enterprises in terms of venture setting up, operation and management, joint ventures lost their appeal.

▪ **Reduced Government Pressure for Setting up Joint Ventures**

In the face of these changes, the Dalian government further relaxed controls over setting up joint ventures. Officials interviewed claimed that it was a long-standing policy of the local government to encourage the setting up of joint ventures. There were three major reasons for this policy: (1) Local government can keep 10 per cent of a joint venture's corporate tax, but this does not apply to a wholly foreign-owned enterprise; (2) With a joint venture, a state-owned or private Chinese partner can improve their productivity with foreign capital, new products, advanced technology and management skills; (3) A state-owned Chinese partner could directly transfer its surplus workers to the joint venture.

However, the problem was that many state-owned enterprises could not contribute any capital at all even if they wanted to form a joint venture with overseas investors. Their old factory buildings, out-of-date manufacturing equipment, and over-staffed workforce did not interest potential overseas investors. As a result, the Dalian government was forced to place less emphasis on joint ventures and to accept other forms of foreign direct investment.

▪ **Relaxed Ownership Transfer from Chinese to Overseas Partners**

In line with its acceptance of wholly foreign-owned enterprises, in 1996 the Dalian government also relaxed the controls over ownership transfer between joint venture partners, especially the transfer from Chinese to overseas partners. According to previous studies (Pearson 1989; Beamish and Wang 1989; Engholm 1990; Boisot and Child 1990; Li and Xu 1994), China's Joint Venture Law did not specify a maximum limit on overseas joint venture partners' ownership and placed few restrictions on the transfer of ownership shares between joint venture partners. However, as China's policies on foreign direct investment were complex and difficult to interpret, there was often confusion between what was allowed legally and what could be done unofficially. The state-level policy and the interpretation of that policy by regional and municipal level governments were often different. Therefore, most overseas partners from joint ventures established in

the 1980s and the early 1990s had a minority stake because of the different interpretations of the law by different local authorities.

Although at the state level there was no formal restriction on transferring ownership between joint venture partners, before 1997 it was almost impossible to have ownership shares transferred from a Chinese to an overseas partner if that overseas partner would then hold a majority stake (51% or above). Hence, in order to get around this restriction, many overseas venture partners demanded a further injection of capital into joint ventures by both parties. They aimed to gain a majority stake, or even buy out their Chinese partners, as they knew it was difficult for their Chinese partners to obtain capital. Naturally, the demands for further injections of capital met with strong opposition from Chinese partners as they could neither afford to, nor wished to, inject further capital into the ventures because of poor joint performance. Thus, many overseas partners suggested purchasing more shares, or even buying out their Chinese partners by exerting pressure on local government, such as threatening to pull out or to move to the hinterland area to set up new wholly owned enterprises. Many Chinese partners could not afford unprofitable operations and took the opportunity to make unofficial deals with their overseas partners to pull out of the joint business.

In the face of this difficult situation, especially the increased unofficial ownership transfers between Chinese and overseas partners, the central government lifted the restriction and from 1996 allowed two-way ownership transfers between joint venture partners. This policy directly triggered a large number of official ownership transfers that converted joint ventures into wholly owned ventures. More overseas joint venture partners acquired shares from their Chinese partners in order to become majority shareholders or wholly own the ventures. This research indicated that most official ownership transfer cases involved Western European and American partners.

### ▪ **Private Sector Involvement in Joint Venture Projects**

Since the early 1980s, the Chinese government has encouraged the development of the private sector to create job opportunities. This study found that 19 out of 103 Chinese partners were from that sector.

Chinese authorities have much less control over private investors than the state economy. As a result, most unofficial ownership transfer deals, known as shell joint ventures, involved private Chinese partners. In these shell joint ventures, either the Chinese or the overseas partner quietly withdrew their interests but still kept the joint venture name. In some cases, one of the partners never had any true investment in the venture. The venture was actually run by one partner and obtained governmental incentives given to joint ventures. Interestingly, most shell joint ventures were reported as being profitable and stable.

### ▪ **Regional Competition in Attracting Inward Foreign Investment**

In the process of building a socialist market economy, the central government has opened up more hinterland areas to the outside world. Many regional authorities have been competing with each other to offer more attractive incentives to overseas investors. In this competition, coastal cities lost their advantages in terms of incentives they could offer, causing many overseas investors to move from coastal cities to the hinterland. The Dalian government was then under pressure to relax its control over inward foreign investment to attract new foreign capital or to keep existing joint ventures within the region.

## **7.2.2 New Power Relationships between Joint Venture Partners**

Previous studies (Killing 1983; Pearson 1989; Yan 1993; Yan and Gray 1994) suggested that the extent to which a host government could assert control in relation to foreign firms depended upon its bargaining power and the possibility of increasing it. According to Pearson (1989), China was initially in a relatively good bargaining position in attracting foreign direct investment, because of the prospect that China would open what overseas investors believed to be a huge domestic market. This made China a highly desirable

location for new investment, although potential weaknesses were also evident in China at the time. These weaknesses often paralleled the strengths of foreign firms in terms of foreign capital, advanced technology, access to international markets and management skills. That was why most state-owned enterprises turned to the joint venture solution for survival (Glaister and Wang 1993; Shawn and Meier 1993; *Tenbridge Survey* 1999). As was established in Chapter Three, the close links with the government meant the Chinese partners usually had strong bargaining powers. As a result, in the 1980s and the early 1990s most Chinese venture partners had a majority equity position (Beamish and Wang 1989; Engholm 1989; Boisot and Child 1990).

A significant change in power relationships between joint venture partners has occurred. As China urgently needs a substantial increase in foreign inward investment and the creation of more employment, the new situation has put overseas joint venture partners in a more favourable bargaining position. In the case of Dalian, as long as jobs can be created, there are few entry restrictions on potential overseas investors. Increased bargaining powers have been gained by the existing overseas joint venture partners as well. They are also in an advantageous position in re-negotiating their ownership shares, choosing where they like to move to, or sell products to, and the way raw materials and components are purchased. It has also become easier for them to recruit office staff and workers directly from local job centres.

The state-owned Chinese partners, on the other hand, were put in a weaker position. They seemed to have lost their bargaining power considerably. The findings indicate that because of further relaxation of state controls over foreign direct investment, the bargaining powers of the Dalian government/Chinese partners were gradually reduced. The Dalian government had to yield to requests for increased ownership shares from overseas partners to keep them in the region. Because of the administrative links between the local government and state-owned Chinese partners, the actual controlling power of most state-owned Chinese partners in joint ventures was reduced accordingly. They had to compromise with aggressive overseas partners by giving up majority ownership and the control over joint ventures. They were often not allowed by the local authorities, or



could not afford, to initiate any strategic action. In most cases in which ownership transferred from Chinese to overseas partners, Dalian officials would ask the Chinese partner to meet the overseas partners' requests. Even with majority stakes, the Chinese partners' control over joint ventures was continuously undermined by the pressure from the local government to transfer ownership shares to the overseas partners. Meanwhile, not satisfied with only a majority stake, many overseas partners moved towards having whole ownership of the enterprises. Fifteen out of 103 joint ventures surveyed are already wholly owned by overseas partners.

On the other hand, private Chinese partners were subject to less control by the local authorities in comparison to their state counterparts. But what do they care more about is to obtain an import and export licence, as a fallout of entering into a joint venture with a foreign partner. Without a joint venture, it was nearly impossible for a private Chinese company to obtain an import and export licence. Therefore, in general, private Chinese venture partners do not mind who they have as overseas partners, what the ownership arrangements are, or who controls operations, as long as a joint venture could be established. That is why most 'shell' joint ventures involved private Chinese partners.

### **7.2.3 Inter-Partner Competitive Learning**

According to previous studies (Harrigan 1985; Dutta 1988; Shenkar 1990; Beamish 1993; Killing 1993; Glaister and Wang 1993), in the 1980s and the early 1990s, overseas joint venture partners viewed the joint venture as a crucial vehicle to facilitate entry into the Chinese market. Firstly, this was the Chinese government's condition for market entry. Secondly, it was perceived to offer a short cut to gain access to the knowledge of the local market, local culture and links with major buyers and distribution channels. These were the inputs that overseas investors found difficult to obtain when operating alone. Thus, the Chinese partners' local knowledge and contacts were of great interest to them. The advantages of these largely intangible inputs significantly outweighed the importance of more tangible factors, such as low cost labour, raw materials and existing factory buildings. Hence, a local Chinese partner's contribution in this regard to an overseas investor was crucial at the early entry stage. Some studies on China-based joint ventures

(Pearson 1989; Shawn and Meier 1993) have attributed joint venture failures to the inexperience of most expatriate managers and to cultural barriers. This also reflects the importance of those intangible inputs gained from local Chinese partners. Wong (1999) suggested that the Chinese partners would continue to be a problem because they were still attempting to dominate their foreign partners, knowing that the latter were heavily dependent on them.

In contrast to previous studies, the findings of this study indicate that the interdependency between joint venture partners was greatly reduced over time, particularly after 1996. Of all the 37 Chinese and overseas managers interviewed, no one was satisfied with their joint partnerships. Having a joint venture partner became a less significant issue to both sides, and to overseas partners in particular. All seven expatriate managers interviewed complained that the value added by Chinese partners was quite low to begin with and declined steadily over time. Taking over office staff and workers from the Chinese partner's parent company could easily bring in less qualified personnel, who would otherwise be laid off by their parent company. In addition, expatriate managers found it difficult to access their Chinese partners' existing sales channels, which, in many cases, was impossible.

With deepening knowledge of the Chinese market and the relaxation of state controls over foreign direct investment, overseas investors in Dalian better understood that their individual commitment could make it easier for them to achieve their strategic goals in China. They further indicated that they no longer needed Chinese partners any more. Most overseas venture partners became more aggressive in their attempts to acquire greater ownership stakes and thereby to increase control over the joint ventures. To many overseas venture partners, majority ownership was not their final strategic objective. Rather, they were making efforts to eventually abandon their Chinese partners and to wholly own these ventures, because the local dependency of these overseas partners had already shifted from their Chinese partners to those Chinese employees they had recruited themselves.

Under the new regulations, China-based joint ventures became able to recruit office staff and workers from local job centres, and, as a result, overseas partners shifted their recruitment away from their Chinese partners' parent companies. They found the personnel they recruited were not only appropriately qualified but were also more loyal, and could efficiently provide all the perceived intangible inputs required. They could, for example, establish direct links and maintain good relationships with the local government, secure government incentives, and gain access to the domestic market and raw materials, which the Chinese partners had failed to deliver. Through them, overseas partners could save an extraordinary amount of management time, which had previously been spent in dealing with their Chinese partners. The whole operation became simpler and easier. Hence, to overseas venture partners, the perceived tangible and intangible inputs from a Chinese partner were no longer significant, or even necessary.

On the other hand, previous studies (Davidson 1987; Li and Xu 1994; Li 1995; Yang 1997) argued that, in the 1980s, Chinese partners were in great need of foreign capital, quality products and advanced technology, as well as modern management skills including production and human resource management, quality assurance, credit control, sales and service promotion. For China, the quickest way to meet these needs was to open the domestic market in exchange for the inflow of foreign investment. Thus, the input of overseas partners was absolutely vital in the entry stage. The findings of this study also indicated changes in this issue. Chinese partners and government officials interviewed believed that Chinese enterprises have greatly improved in terms of financial strength, production efficiency and the quality of products by using foreign capital, as well as transferred technology, equipment and management skills. The requirements of their overseas partners have also reduced. When the problems brought from working jointly with overseas partners in terms of strategic differences, cross-cultural barriers and communication problems were considered, overseas partners were seen as having placed too many restrictions on Chinese partners' potential self-development.

### **7.3 Restraining Forces for Joint Venture Stability**

It was established in Chapter Two that there are forces in organisations that counter changes and help retain a certain organisational stability. Previous studies (Kimberly 1980; Mintzberg and Water 1982; Boeker 1989; Eisenhardt and Schoonhoven 1990; Scott 1992) have suggested that organisational factors such as the characteristics of the founding executives or top management team, as well as the venture's initial business strategy, can create structural stability. Yan and Luo (2001) have further summarised the restraining forces for joint ventures' structural stability as the local political and legal environment, partner initial resources contributions, the original match of inter-partner bargaining power, and pre-venture relationships between partners.

The findings of this research have identified that China's political and legal environment, partner initial resources contributions and the original inter-partner bargaining power tended to be driving forces for joint venture instability rather than restraining forces for stability. Several restraining forces, which might contribute to joint venture stability, were identified, but in comparison with those driving forces for instability, they were too weak to have much effect.

#### **7.3.1 Authorities' Control over State-owned Chinese Partners**

As was mentioned earlier, Chinese partners were in a less competitive bargaining position; however, most Chinese partners and local government officials interviewed thought that to simply import advanced technologies or even to manufacture under licence would be preferable to cooperation with a foreign venture partner. Chinese partners too, therefore, sought chances to abandon their overseas partners for an independent operation of their joint venture. However, because all state-owned Chinese joint venture partners have strong official administrative links with relevant government departments, they have to do what the local authorities tell them to do as the local authorities have ultimate control over the strategic decision-making of these state-owned Chinese venture partners.

As the instability of any Dalian-based joint ventures would likely lead to dissolution or termination, and thereby increase existing local unemployment, the Dalian government had strictly controlled all strategic moves on the part of state-owned Chinese partners, in terms of ownership transfer, dissolution or termination of joint ventures. On the surface, the special relationship between local authorities and state-owned Chinese venture partners contributed temporary stability but it put those state-owned Chinese ventures partners in an even worse position when it came to reacting to the ventures' internal and external changes. Eventually, the special relationship (arguably) triggered those unofficial ownership share transfer deals between state-owned Chinese partners and overseas partners – shell joint ventures. Moreover, seven Chinese managers revealed that they had shifted their international market focus from joint ventures towards attempts to establish their own operations in foreign countries in order to access world markets.

### **7.3.2 Venture Partners' Pre-Joint Venture Relationships**

The findings from personal interviews indicated that inter-partner pre-joint venture relationships also contributed to joint venture stability, at least on the surface. Four Chinese joint venture managers said that their overseas partners were their previous business partners and they had very good business relationships. They were more like personal friends than business partners. They entered into joint ventures for closer cooperation. However, joint operations were not as successful as expected because of different strategies between the partners. On the one hand, both parties had to terminate joint cooperation, but on the other, they had to make sure their actions did not damage each other and the local authorities. Thus, unofficial venture deals were made by partners to keep joint ventures in name only (shell joint ventures) rather than to close them down. More cases of this kind, in which venture partners went back to their original trade partner-relationships, were reported after 1996 when the Chinese government removed restrictions on venture ownership transfer.

To summarise, the findings of this research support the argument from previous studies (Killing 1982; Harrigan 1984; Harrigan 1985; Davidson 1987; Kogut 1988; Pearson 1989; Beamish 1993; Mamill and Pambos 1997; Vanhonacker 1997; Bulcke et al.1999; Weldon

and Vanhonacker 1999; Selmer 1999; Wong et al. 1999) that joint ventures in China are likely to be less stable in the future. The longer a joint venture has been in operation, the greater would be the number of reorganisations/liquidations, as performance problems arise. As both sets of forces influence a joint venture, actual changes in venture structure depend upon the relative strength of the two sets of forces. The implication of the findings of this research is that joint venture structural reconfiguration would occur in one way or another because the overall destabilising forces were stronger than the overall stabilising forces.

In summary, the findings of this study support the hypothesis that drift of joint venture entry strategies and the relaxation of state control over foreign direct investment affected joint venture partners' initial power relationships, which further affected the balance between restraining forces for a venture's stability and driving forces for a venture's instability. In the next section, internal changes in joint ventures will be discussed.

#### **7.4 Changes At Joint Venture Level**

This section provides conclusive evidence that with relaxed state controls over foreign direct investment, and the new power relationships between joint venture partners, there have been significant changes in joint venture partners' strategies, ownership structure, and operational management within joint ventures.

##### **7.4.1 Changes in Partners' Strategies**

This research found major changes in joint venture partners' strategies. The constant disputes over strategic differences and operational issues, the complexity of mutual adaptation and the frustrations of joint performance were all factors that caused a drift of joint operation strategies.

##### **(1) Significant Shift in Market Focus**

Previous studies (Daniels et al. 1985; Grub and Lin 1991; Li and Xu 1995; Hamill and Pambos 1997) argued that a major strategic difference between the Chinese and overseas partners was that overseas partners focused on China's domestic market whilst the

Chinese partners focused on the international market. Pearson (1989) revealed that the Chinese government set up a number of controls to discourage domestic sales by joint ventures. Formerly, the government was able to use the state plan to press for exports. By including joint ventures in these state marketing plans, the government was able to direct how and where joint ventures made sales. It could also use its pricing authority to impose far higher prices for joint venture products than for the comparable local products, making domestic sales difficult. And, in theory, the Chinese government could also use its Chinese managers within joint ventures to direct sales.

According to the questionnaire survey results of this study, 67 (65%) out of 103 Chinese partners said that to export products and earn hard currency for parent companies was one of the most important motives for setting up joint ventures. On the other hand, 60 (58%) out of 103 foreign partners saw entering into China's domestic market as the most important motive for setting up joint ventures, which seemed to support the argument from previous studies. However, the questionnaire survey results were contradicted by the results from personal interviews, which indicated that the above market focus was true only at the early stage of joint ventures but it was changed over time by venture partners.

As mentioned earlier, most Dalian-based joint ventures had reached a compromise over the differences in market focus by targeting both domestic and overseas markets, where Chinese partners influenced overseas sales while overseas partners were keen to expand sales in the domestic market. According to previous studies (Daniels et al. 1985; Tai 1988; Pearson 1989; Kungchia Yeh 1993; Li and Xu 1995; Hamill and Pambos 1997), the Chinese government originally restricted domestic sales with the aim of encouraging the export of joint venture products. In contrast, seven expatriate managers interviewed in this research clearly indicated that it was now overseas partners, rather than Chinese partners, who were making efforts to limit domestic sales.

All seven expatriate managers interviewed were satisfied with their controlled overseas sales, which indicated that they were able to repatriate their own profits outside China.

Three expatriate managers from manufacturing ventures expressed no interest at all in China's domestic market, due to the complexity of its practice and the possible control of domestic sales by their Chinese partners. When these expatriate managers were asked about the contradiction between the remarks on market focus in the questionnaire survey and in the personal interviews, they explained that their interest in China's domestic market remained unchanged. The evidence was that they had established or were working on setting up their own domestic sales teams. Two expatriate managers, who already wholly owned their ventures, claimed that they had been working hard to expand domestic sales. But in many cases, China's domestic sales system was too complicated and the Chinese partners' existing sales channels were insufficient. Another five expatriate managers complained that it was very difficult to receive payments for domestic sales. Therefore, they had to rely on overseas sales to generate profits.

In contrast, most officials and Chinese managers interviewed claimed that the shift of overseas partners' market interest was more likely because of 'transfer pricing'. Most Chinese managers claimed that they had been making great efforts to influence overseas sales activities, but without any success. As a result, Chinese partners had to also make a U-turn, in order to shift their market focus from export to the expansion of domestic sales in order to control one aspect of the operation and make profits. From interviews with local government officials, it was found that Chinese venture partners were encouraged by the local government to make extra efforts for domestic sales and to limit overseas sales. Most officials and Chinese managers interviewed claimed that Chinese partners might use domestic sales to exercise control of the joint operation. In other words, Chinese partners were making independent efforts to achieve their own profits through domestic sales. Six Chinese managers said that their parent companies were planning to set up their own sales offices abroad in order to make their own overseas sales of joint venture products.

## **(2) Shift from Mutual Adaptation to Independent Control**

Previous studies on China-based joint ventures (Shenkar 1990; Glaister and Wang 1993; Shaw and Meier 1993; Wilpert and Scharpf 1995; Fan 1996) shared one common theme:



mutual adaptation between Chinese and overseas partners. The focus of several studies even in the late 1990s (Sergeant & Frenkel 1998; Biorkman and Yu 1999; Selmer 1999; Wang and Law 1999; Weldon 1999) was still on how to improve expatriate managers' ability to work together with Chinese partners as well as adapt to China's business environment. However, the findings in this study indicated that efforts made by joint venture partners for mutual adaptation were switched to independent control. Overseas partners, in particular, had been making great efforts to sideline Chinese partners, rather than work together with them. In fact, overseas partners, in a better bargaining position, were taking strategic steps to reduce uncertainties and operational difficulties by dispensing with Chinese partners. Interviews with seven expatriate managers indicated that overseas partners realised it was far easier to abandon Chinese partners than to make efforts to adapt to their way of doing business. As a result, overseas partners' local dependency had rapidly switched from Chinese partners to Chinese employees recruited by the overseas partners themselves.

Most Chinese officials and partners interviewed claimed that they had been making efforts to adapt to their overseas partners. However, with a continuously unprofitable joint operation and their ongoing reduced bargaining power, the Chinese partners were put in a defensive position. Their dependency on overseas partners, and overseas sales in particular, was greatly reduced because of transfer pricing. Similarly, the efforts for adaptation to overseas partners had had to switch to emphasizing their own interests in joint ventures. However, because of local authority control, most state-owned Chinese partners could not initiate any strategic changes (e.g. termination of joint ventures) without approval from those authorities, and so Chinese partners could only passively maintain their ownership shares and enforce their control along functional lines (e.g. domestic sales). However, as the findings of this study indicate, there was a strong willingness from many Chinese venture partners to withdraw from these unprofitable joint ventures.

### **(3) Move to Abandon Joint Partnerships**

The endless conflicts and poor joint operational performance disappointed both Chinese and overseas partners. The findings of this study further indicate that in most cases, the former partners could become a strategic barrier. Hence, internal difficulties, together with the impacts of the changes in China's business environment, frequently motivated joint venture partners to move to abandon the joint partnership.

The findings from personal interviews indicated that among most Chinese and overseas partners, there was a common intention to end their joint partnership. As has been discussed earlier, the overall external and internal situations had broken the initial balance of power relationship between partners, and thus there was a strong tendency on the part of both overseas and Chinese partners to obtain/maintain a maximum/complete control of joint ventures, or otherwise to pull out. Overseas partners were in a more favourable position to initiate a strategic take-over of their joint ventures and to operate independently, whereas Chinese partners would only take over joint ventures once the overseas partners completely pulled out.

In summary, the findings of this study confirm changes in venture partners' strategies in terms of shifted market focus, efforts switched from mutual adaptation to independent control, and willingness to abandon joint venture partners. The findings thus support the hypothesis that the impacts of changes in China's business environment and joint venture internal difficulties affected venture partners' power relationships, and drove the changes in partners' strategies.

#### **7.4.2 Changes in Ownership Structure**

It was established in Chapter Two that the ownership of equity stakes was the major lever for the exercise of control over strategic matters, such as the use of profits, re-investment policy, setting strategic priorities and allocating top management appointments in joint ventures. (Pearson 1989; Beamish and Wang 1989; Engholm 1989; Boisot and Child 1990; Beamish 1993; Hamill and Pambos 1997; Pan 1997; Child and Yan 1999). Pearson (1989) noted that during the 1980s, Chinese officials were clear in their preference for

Chinese majority or fifty-fifty ownership, for the 'comfort of control' over management. Reflecting this preference, Chinese majority or equal ownership was far more common than foreign majority ownership for joint ventures formed in the 1980s. Most overseas investors had to accept only a minority stake or at most 50 per cent ownership.

This study reveals that there has been a rapid increase in the joint ventures with overseas partners owning majority stakes. Among 103 joint venture surveyed in this study, there were 49 in which the overseas partners held majority stakes, 42 in which the Chinese partners held majority stakes, and 12 joint ventures where there was 50/50 equity. It was significant that of the 49 ventures with overseas partners holding the majority of ownership shares, 31 had recently managed to obtain greater ownership shares from their Chinese partners, and 16 ventures were actually wholly owned by overseas partners. One might guess that the actual number of joint ventures controlled by overseas partners could well be larger, because many cases of unofficial, and therefore unrecorded, ownership transfer from Chinese to overseas partners were found during the personal interviews.

The difficulties the Chinese partners had in maintaining majority ownership stakes were largely due to problems with finance, as well as to pressure from local authorities. In most cases, when an overseas partner requested a further injection of capital into joint ventures, it would be very difficult for the Chinese partner to secure a bank loan. Therefore, most Chinese partners had to transfer more shares to their overseas counterparts. Most Chinese and overseas managers confirmed that after 1996, it became easier for overseas partners to obtain greater ownership shares from their Chinese partners. Four Chinese managers interviewed admitted that the transfers of greater ownership shares to overseas partners were made under pressure from the local authorities, as the government would do anything it could to keep overseas investors within the region and to prevent further job losses. Hence, the local authority instituted strong controls over the buying or selling of ownership shares by state-owned Chinese partners. Without the local authority's approval, Chinese partners could not purchase or sell their stakes, as they would wish.

There were five cases in which Chinese partners wanted to pull out from unprofitable ventures, but could not get approval from the local authority. The five Chinese managers interviewed indicated that most Chinese partners with a minority ownership stake would be more than happy to pull out from unprofitable ventures. They told the author that they were negotiating with the local authorities in order to get their approval to pull out from these joint ventures.

Another two Chinese managers admitted that some Chinese partners strategically aimed to withdraw step by step from unprofitable joint ventures, in order to recover their investment. In most cases, joint venture partners had to manipulate the ownership transfer quietly and unofficially, as the local authority did not in general allow them to give up their ownership, either partially or completely.

Unofficial ownership transfers meant the ownership transfer deals happened without the formal approval of the local authority, which should, in theory, have been obtained first. The findings of this study show that many Chinese and overseas partners had a good pre-joint venture relationship, especially where such a relationship was between private Chinese partners and overseas partners. Most of them were former trade partners. Thus, the formation of the joint ventures had been based on their inter-dependency. Although conflicts emerged during the joint operation stage, both Chinese and overseas partners were unwilling to break up their business relationship completely. Nevertheless, to keep the joint venture going would further hurt each partner and, on the other hand, probably neither party would benefit from the dissolution or termination of these ventures. This special situation thus drove these venture partners to enter into unofficial ownership transfer deals, leading to 'shell' joint ventures. As a result, both Chinese and overseas partners could benefit, to a greater or lesser degree, from simply retaining the name of their joint ventures.

Eight local officials and three Chinese managers admitted that most private Chinese partners would unofficially arrange for ownership transfers with the aim of obtaining import/export licences and government incentives, such as a two-year corporate tax

holiday and another three years of corporate tax reduction (50%), for both of which joint ventures are eligible.

This research also discovered 'shell' joint ventures, which had been formed as such from the outset in order to gain for import/export licences, government incentives or market entry into sectors, which were restricted to wholly foreign-owned firms. In these unofficial deals, one partner pulled out but left its name with the venture, which made a significant difference to these ventures' operation and management. This finding challenges the existing literature on joint venture ownership/control theory, which holds that controlling power, derived from majority equity, was no longer important. Firstly, joint venture ownership could be unofficially transferred from one partner to another even if the law or government regulations did not actually allow this kind of ownership transfer. Secondly, joint venture ownership could be unofficially manipulated by partners from the outset for strategic purposes, in terms of complete control, entry into a restricted sector, obtaining import/export licences and government incentives for genuine joint ventures.

In summary, the findings of this research not only support the hypothesis that the impacts of changes in China's business environment and the new power relationships between venture partners has affected joint venture ownership structure, but have also uncovered many instances of unofficial joint venture ownership transfer, thus challenging international joint venture ownership/control theory. It is also significant that many unofficial ownership transfers happened before the arrival of the dramatic changes in China's business environment in 1995. This implies that joint venture internal difficulties were a major determinant for changes in joint venture ownership structure.

#### **7.4.3 Changes in Operational Management**

Together with the changes in joint venture partners' strategies and in ownership structure, the findings of this study further indicate changes in joint venture operational management.

### **(1) Localisation of Management Team**

The findings of this study confirm a trend towards the localisation of joint venture management teams. Among the 103 joint venture surveyed, only 35 ventures (34%) were run by expatriate general managers representing overseas partners. In contrast, 68 ventures (66%) were run by Chinese general managers, representing either Chinese or overseas partners. It was significant that of the 68 Chinese general managers, 11 had simply replaced expatriate managers, even where overseas partners had obtained majority ownership shares. Nevertheless, there were also four cases in which expatriate general managers were brought back to replace Chinese general managers, where overseas partners obtained majority ownership shares or wholly owned the ventures.

This study indicates that as part of the strategy of localisation of management teams, the number of expatriate staff had greatly reduced when compared with the early stages of these joint ventures. Out of 103 joint ventures surveyed, 34 ventures (32.9%) had their expatriate staff reduced. However, 13 ventures (12.6%) had increased the number of their expatriate staff, as a strategic move aimed at enforcing complete control over these ventures after the overseas partners had obtained majority ownership shares. Nevertheless, it is significant that a further 30 ventures (29.1%) had employed no expatriate staff, even from the very beginning.

All seven expatriate managers interviewed admitted that the localisation of management teams was partly due to the pressure from their Chinese partners, and partly due to the fact that hiring expatriate managers cost too much. Another change in this regard was that most Chinese general managers representing overseas partners were from third parties rather than from the Chinese partner's parent company. This further underlined the ongoing tension of the relationships between some Chinese and overseas partners.

### **(2) Establishing a Joint Venture's Own Sales Force**

It was established in Chapter Two that at the entry stage, most overseas partners expected to rely entirely on their Chinese partner's parent company's existing sales force and distribution network in order to gain easy access to China's domestic market (Beamish

1989; Pearson 1989; Daniels 1986; Aiello 1991; Newman 1992; Glaister and Wang 1993; Li and Xu 1995). That was why most joint ventures did not establish their own sales forces to start with. The findings showed that, of the 103 ventures surveyed, in 99 cases (96.1%) the venture had no sales force in its early stage. This was in line with the joint venture entry strategy identified by the previous studies

However, this study shows that 91 (88.3%) of the 103 joint ventures surveyed had their own domestic sales forces at present. Only 12 joint ventures (11.6%) did not have their own sales forces because 100 per cent of their products were for export. However, this change in the organisational structure implied a major shift in joint venture strategies. Seven of the expatriate managers claimed that this change was due to the failure to use the sales forces of their Chinese partners' parent companies. But at the same time, another 16 Chinese managers interviewed admitted that the Chinese partners' market priority had shifted from the overseas market to the domestic market, which further reflected different strategies between the venture partners.

### **(3) Changes in Management Staff and Worker Recruitment**

Another important change was found in management staff and worker recruitment in joint ventures. At the time of this survey, 87 (84.5%) out of 103 ventures had their management staff recruited entirely or partly from local job centres rather than from their Chinese partner's parent company.

It was established in Chapter Three that there were continuous arguments between joint venture partners about the quality of the workforce, which emanated from the Chinese partner's parent company. In contrast with the existing literature, the findings of this study indicate that an increasing number of overseas partners, in particular those who had obtained controlling ownership shares, had rapidly switched from taking over the employees of the Chinese partner's parent company to recruiting employees from the local job centres.

The seven expatriate managers interviewed all clearly confirmed that the successful shift of management staff and worker recruitment from their Chinese partners' parent companies to local job centres had solved the perceived problem of overstaffing and also reduced some operational difficulties, such as difficulties in communication and uncooperative attitudes. Most importantly, as the seven expatriate managers all stressed, loyalty to the employers was greatly improved in comparison with that of office staff/workers from the Chinese partners' parent companies. This implied that with the shift of personnel recruitment, cross-cultural management in joint ventures would be simpler.

#### **(4) Adaptation to the Chinese Business Culture**

Development of a local management team was the leading factor for the success in the Chinese market place. Most Chinese employees have worked for government departments or state-owned enterprises all their lives. Their motivation and work ethic might well be very different from that of employees from Hong Kong or Taiwan (Lindsay and Dempsey 1985). The hiring of local Chinese management staff and workers by overseas investors had been problematic, because employment of local Chinese personnel by overseas investors had almost always included provision of housing and medical benefits, whereas in most cases wholly foreign-owned enterprises and overseas-partners controlled joint ventures did not offer such provision (Cohen 1982; Horsley 1984; Moore and Scogin 1986; Shenkar 1990). Hence, for joint ventures as well as wholly foreign-owned enterprises, it was often difficult to attract promising staff and workers because the state-owned enterprises provided Chinese employees with a full range of benefits: welfare, medical insurance, housing, kindergarten, recreation and sports. If they worked for a foreign enterprise or a joint venture, they would receive none of these, unless they were sent to work in a joint venture as the employees of the Chinese partner rather than of the joint venture.

In the early stages, most employees in Dalian-based joint ventures were redeployed from the Chinese partner's parent company to reduce the overall cost of providing these benefits in the joint venture. Hence, although these Chinese employees were physically



working within a joint venture, their benefits, including housing, pension schemes, and medical insurance, still came from their previous employer – the state-owned enterprise. For Chinese employees, it was a privilege to work in a joint venture because they could earn more while at the same time continuing to enjoy the whole range of benefits supplied by their parent companies. However, this demanded loyalty to the Chinese partner, not the overseas partner, as these Chinese staff and workers could be easily withdrawn from the joint venture by their parent companies at any time. As long as overseas investors did not provide a benefit package in terms of housing, medical insurance and so on, they were likely to encounter problems with regard to employee loyalty.

This study indicates that, as the overseas partners' control over joint ventures increased, so the shift of employee recruitment away from the Chinese partners' parent companies and towards the local job centres also increased. Most wholly foreign-owned enterprises now started to provide housing (or a housing allowance), free lunches and medical insurance in an incentive package to attract talented management staff/workers in the hope of creating and retaining the loyalty of their Chinese employees. All seven of the expatriate managers interviewed claimed that hiring local employees proved to be far more effective for several reasons: it could reduce the costs associated with keeping expatriate managers, develop loyalty to the overseas investors and prove to be a dependable force in helping achieve corporate strategic objectives, thereby ensuring long-term growth in the Chinese market.

In summary, the findings of this study support the hypotheses that the relaxation of state control over foreign direct investment and the new power relationships between joint venture partners drove significant changes in venture partners' strategies, ownership structure and operational management. All these changes were to have a strong impact on joint venture evolution.

## **7.5 Evolution of Joint Ventures**

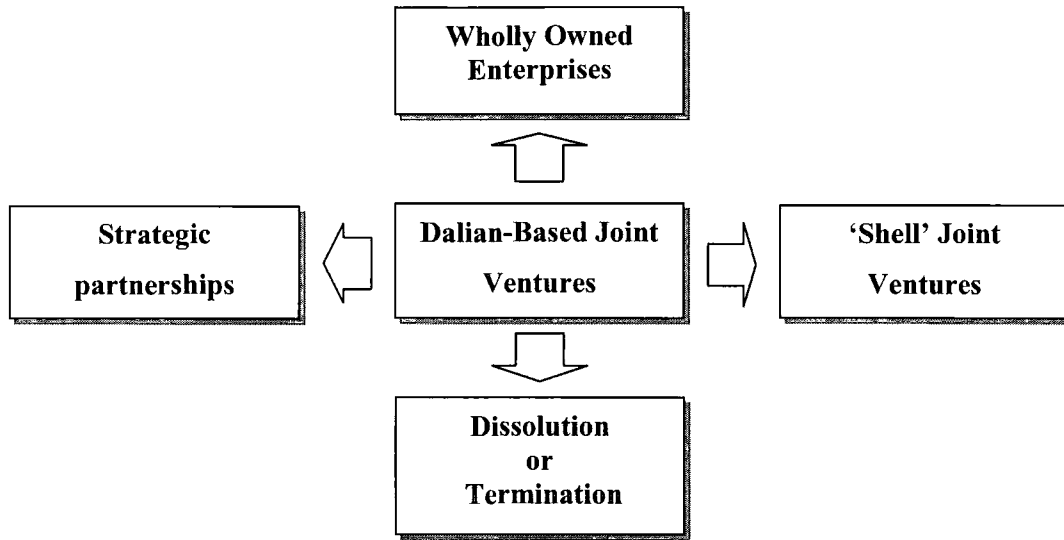
### **7.5.1 Patterns of Evolution**

The first four sections of this chapter have demonstrated that changes in China's business environment had a significant impact on joint venture projects and led to changes at joint venture level too. Johnson and Scholes (1993) argued that changes in strategies always transform an organisation, thus it is logical to assume that with the impact of the changes in the external environment and in joint venture partners' strategies, ownership structure and operational management, these joint ventures would have been transformed in different patterns.

In the current literature (Kogut 1988; Kogut 1989; Parke 1993; Ring and Van de Ven 1994; Gulati 1995; Gray and Yan 1997; Yan and Luo 2001) the major focuses of joint venture evolution are on instability as a cause of termination and also on changes in ownership structure as well as reorganisation and contractual renegotiation. Consequently, previous studies went into great depth in identifying factors contributing to joint venture instability, but none has so far attempted to identify patterns of evolution of China-based joint ventures. Given ongoing economic transition in China, it is logical to consider that the impact of economic transition on the pattern of evolution for China-based joint ventures. Based on the findings of this study, a four-way pattern of evolution of joint ventures can be established, as shown in Figure 7.5-1.

#### **(1) Wholly Owned Enterprises**

This study has identified a trend for joint venture partners to make strategic efforts to buy out their venture partners in order to exercise complete control. In the process of buying out partners, overseas partners were in a better bargaining position, while the Chinese partners were put in a defensive position and could only react passively to the overseas partners' initiatives.

**Figure 7.5-1 Evolution Patterns of Dalian-based Joint Ventures**

For overseas partners, it was simpler to buy out their Chinese partners than to work with them. Overseas partners have learned to shift their local dependency from Chinese partners to staff recruited by themselves. For Chinese partners, lengthy unprofitable joint operations were not satisfactory. Now it seemed that they could easily put an end to the uncertainty by pulling out of the ventures, as the only barrier – the need for local authority approval, had been removed. Hence, in the future, there would be a dramatic increase of wholly foreign-owned enterprises converted from joint ventures. There might also be cases where Chinese partners had to take over some joint ventures, when the overseas partners withdrew from them.

## **(2) Converting Joint Ventures into Strategic Partnerships**

During the personal interviews, four Chinese managers admitted that they had made deals with their overseas partners to convert the joint venture partnership into a strategic business partnership. In these deals, the joint ventures were jointed in name only. One partner withdrew its interest from the joint operation with a dramatic reduction of its ownership share and left the other party to run the venture alone. In exchange, the

withdrawn partner would act as a strategic partner - a sole sales dealer, sole raw materials/components supplier, or product designer.

### (3) Converting Joint Ventures into 'Shell' Joint Ventures

There are several types of 'shell' joint ventures. The characteristics of such ventures vary from time to time, depending on the changes in the external environment. They have mainly been expedient arrangements for seeking governmental incentives available to joint ventures, gaining access to restricted industrial sectors, or achieving internal ownership transfers between partners when such transfers are restricted by the government. Table 7.5-1 presents three types of 'shell' joint ventures:

**Table 7.5-1** Types of 'Shell' Joint Ventures

	Objectives for Forming 'Shell' Joint Ventures	Chinese Partner	Overseas Partner
1	Seeking government incentives, such as tax holidays, cheaper land/factory buildings and import/export licences.	Real commitment with complete control	Token commitment in name only.
2	Seeking market entry into sectors restricted to joint ventures only.	Token commitment, in name only.	Real commitment with complete control
3	Seeking illegal ownership share transfer from Chinese to overseas partner when the Chinese government restricted such transfers before 1996.	Token majority stakeholder	Actual majority stakeholder

#### ▪ 'Shell' Joint Ventures' for Extracting Government Incentives

Three Chinese managers from the private sector admitted in interviews that they had set up joint ventures mainly in order to gain government incentives, such as tax holidays, relatively cheap land/factory buildings and import/export licences. Six of the government officials interviewed confirmed the above Chinese managers' comments and explained further that this kind of 'shell' joint venture mainly involved private Chinese partners and overseas partners from Hong Kong, Taiwan, Korea and Japan. In most cases, overseas partners were token investors, without any physical commitment. They only invested their names in exchange for individual benefits in terms of product dealership, a certain

percentage of the joint venture's annual profit or a position of sole supplier to purchase raw materials/components from abroad for the joint venture.

▪ **'Shell' Joint Ventures for Obtaining Market Entry**

Under the government foreign direct investment policy, a number of sectors could only be entered by a joint venture. As a result, overseas investors in theory have to find a Chinese partner to comply with this government regulation on market entry. However, three Chinese managers who represent overseas partners told in the interviews that in many cases, overseas investors in Dalian did not necessarily need a Chinese partner. Some of them had managed to find a token Chinese partner, who had no physical commitment. One of the managers hinted that his company had official assistance in searching for such a token Chinese partner. After market entry was achieved, the overseas venture partners always made unofficial deals to buy out the Chinese partners, and run these 'joint ventures' themselves.

▪ **'Shell' Joint Ventures for Undertaking Internal Ownership Transfer**

During the fieldwork, several cases were found in which ownership shares were transferred from Chinese to overseas partners even before the government officially lifted the restriction in 1996. Two Chinese managers interviewed said that they were majority stakeholders when their ventures were set up in 1990, but their joint operations were not profitable for about four years. But at that time, they were not allowed to pull out from the unprofitable ventures, so they quietly transferred majority ownership shares to their overseas partners without attracting the attention of the local authority, and remained the majority stakeholder only in name. This implied that in China, a majority ownership stake does not necessarily mean complete control, since ownership distribution could be manipulated unofficially and illegally.

**(4) Dissolution or Termination of Joint Ventures**

Previous studies (Kogut 1988; Yan and Luo 2001) have listed five major reasons for exit from an international joint venture: inter-partner strategic differences, changes in

partners' strategies, inability to meet partner expectations, unrealised partner commitment, and mission fulfilled.

During the interviews with local government officials, whenever the topic of dissolution or termination of joint ventures was raised, they showed clear concern about any negative image that Dalian's foreign direct investment might acquire. Using the Chinese words 'the joint venture disappeared' (*hezi qiye huang le*), rather than 'the joint venture closed down' (*hezi qiye guan le*), they argued that there were cases where joint venture contracts were terminated, but those ventures were not closed down, because even if overseas partners left the ventures for good, the joint ventures were still there, run by the Chinese partners, or were taken over by other state-owned enterprises. Only one senior official disclosed that about 2000 joint ventures in the region had been terminated since 1984.

Another 11 Chinese and three expatriate managers confirmed the above official explanation that many unsuccessful Dalian-based joint ventures were not really closed down after the joint venture project failed, as the local authorities always managed to keep those joint ventures running. In contrast, the other 19 Chinese and 4 expatriate managers interviewed admitted that a large number of joint ventures in Dalian area had closed down.

Regarding the reasons for exit, both local government officials and Chinese managers interviewed claimed that strategic differences between joint venture partners were the major one. They further suggested that although the Asian financial crisis caused many terminations, the dominating strategies and illegal operations of overseas partners, such as 'transfer pricing', were the major reasons that led directly to many ventures' long-term unprofitable operations and eventual termination.

On the other hand, seven overseas managers claimed that most termination cases in the region were due to the dominating attitudes of the Chinese partners, and their failure of delivering local knowledge to the ventures. Although this was not the direct experience of these overseas partners themselves (no managers of failed joint ventures could be found

for interview) it shed some light on the situation where internal competition between partners was the main reason for joint venture failure.

In addition, one senior staff member from the Dalian Association for Foreign-funded Enterprises claimed that venture partners' accumulation of knowledge about the local market could be another reason for a joint venture's termination. With enhanced practical experience of the marketplace, joint venture partners in general, and overseas partners in particular, have learned a good deal about the way of doing business in China. Hence, their need for a local partner has gradually reduced. As a result, one of the partners might pull out or be forced to pull out. This implied that the venture partners' learning curve was another determining factor for the termination of Dalian-based joint ventures.

### **7.5.2 Operational Performance of Converted Ventures**

Empirical evidence provided by previous studies (Teargarden and Von Glinow 1991; Beamish 1993; Yan and Gray 1994; Osland and Cavusgil 1996; Hamill and Pambos 1997) suggested that international joint ventures in general performed poorly and estimated failure rates ranged from 30 to 60 per cent. One can expect the failure rate of joint ventures in China to be even higher, given the complex economic, political, market, legal and cultural difficulties involved in doing business in China.

The findings of this study indicate that operational performance of joint ventures was poor which supports previous studies. Indeed, among the 103 joint ventures surveyed, only 38 ventures were profitable (37%), of which 37 were manufacturing ventures and one was in the property business. The age of these profitable ventures ranged from one to four years (16 ventures) and five to 10 years (22 ventures). It was hard to determine whether ventures controlled by Chinese or overseas partners had a better operational performance, as 16 ventures were controlled by Chinese partners (holding more than a 50% stake) and 16 ventures by overseas partners (holding more than a 50% stake). The remaining six ventures were held in 50/50 equity ownership. However, an analysis of changes in ownership structure of the 38 profitable ventures gives a clear conclusion. Of the 38 profitable ventures, 12 ventures changed their ownership structure. Apart from

three cases in which the Chinese partner obtained at least a 50 per cent stake, overseas partners in another nine ventures managed to transfer ownership share from their Chinese counterparts. It was significant that seven of the nine ventures were foreign wholly owned. Overall, this indicated that in the profitable sample group, ventures controlled by overseas partners performed better.

On the other hand, there were 59 unprofitable ventures in the survey sample. Of these, 22 (37.2%) had Chinese partners holding more than 50 per cent stakes, 31 (52.4%) had majority holdings by overseas partners. The remaining had 50/50 equity ownership. On the surface, it looks like that more foreign controlled ventures were poor performers. However, of the 31 unprofitable ventures in which the overseas partner hold a majority stake (52.4%), 17 (28.7%) had ownership shares transferred from the Chinese to them between March and August 1998, just a few months before the survey. In fact, 6 Chinese managers interviewed admitted that in most cases, after overseas partners gained a majority stake, they would score a better performance. Another two Chinese managers believed that Chinese partners delivered a better performance after obtaining total control over the ventures. This implied that total control of a venture would deliver a better operational performance.

Overall, performance of joint ventures was not satisfactory, as only 38 ventures (37%) reported to be profitable, 6 (5.8%) broke even, and 59 (57%) unprofitable. Of seven ventures, converted to wholly foreign-owned ventures in 1996, they became profitable in less than two years. The other eight ventures had been converted less than a year and were still unprofitable at the time of the survey. However, their managers were very confident that they would soon do better.

Among the 38 profitable joint ventures, seven ventures were already converted into wholly foreign-owned ones and four were actually 'shell' joint ventures, which should not be counted as profitable 'joint ventures'. There may be more 'shell' joint ventures in these 38 profitable ventures, but hard evidence is difficult to find. The implication is that the actual financial performance of joint ventures was even worse than the survey data



showed and those converted joint ventures (including 'shell' joint ventures), where control is wholly in the hands of one partner do deliver a better performance.

### **7.5.3 Future Perspectives**

Now that in China, overseas joint venture partners are able to increase control and convert into wholly foreign-owned enterprises, the long-term uncertainty and operational difficulties in joint ventures tend to decline. Having a strong foothold in the Chinese market, overseas investors are making full use of their advantages and are actively taking strategic steps to improve operational performance. Overseas investors now see a true opportunity to evolve the joint ventures towards stable and profit-oriented foreign enterprises in China.

In contrast, most Chinese joint venture partners are in a weaker position. They have few strategic options but to gradually give up their ownership stakes to their overseas partners. However, although under pressure from the local government, they will not give up easily. Most Chinese managers interviewed claimed that because of the bitter experience with overseas partners, many Chinese state-owned enterprises have lost interest in forming a joint venture. Five Chinese partners revealed that with quality products, advanced technology and extra production capacity, they hope to become international market players. The ideal model, they believe, is to set up a wholly owned or a joint venture abroad to assemble products using components supplied by their China-based parent companies.

## **7.6 Conclusion**

This chapter has analysed changes in China's business environment and the impacts of the relaxation of control over foreign direct investment. Next, changes at the joint venture level in terms of partners' strategies, ownership structure and operational management were discussed.

Evidence suggests that, with the relaxation of state control over foreign direct investment, there have been dramatic changes in the nature of joint ventures' internal difficulties, venture partners' initial power relationships and their interdependency. This has accelerated evolution of Dalian-based joint ventures. In the process, overseas partners have obtained a better position to aggressively pursue complete control over joint ventures. In contrast, Chinese partners are largely defensive and have to reformulate their joint venture strategies to accommodate the changes. Also in this process, an evolutionary pattern has emerged in Dalian-based joint ventures.

## Chapter 8

## Conclusion

### 8.0 Introduction

The main motivation of this research is to examine transitional changes in China's business environment and their impacts on foreign direct investment in China. This study also reviews subsequent changes at the joint venture level, and then identifies an overall pattern of evolution of these joint ventures.

This chapter concludes the research by providing a comprehensive summary of the research findings and a critique of the literature on the evolution of international joint ventures. It also points out the theoretical implications of this study by examining the similarities and differences between this research and the existing body of knowledge on China-based joint ventures. A clear understanding of the findings of this study may provide an indication that the traditional joint venture model is no longer suitable for both Chinese and overseas partners in the context of China's ongoing economic transition. As a result of both external and internal changes, joint venture partners are facing new challenges to manage a rapid evolution of their ventures. This chapter also suggests areas for further research.

### 8.1 Main Findings of The Thesis

Previous studies (Brown 1986; Davidson 1987; Campbell 1988; Pomfret 1989; Beamish and Wang 1989; Pan et al. 1993) indicated that in the past two decades, joint ventures involving an overseas investor and a Chinese partner became an extremely useful vehicle for penetrating the Chinese market, because a joint venture was seen as the most realistic and effective way to generate Chinese government interest and support, gain a possible presence, smooth the way into a strange market, establish the joint operation necessary for success, and provide a combined instrument to deal effectively with China's unique culture and general business practices.

Some recent studies (Vanhonacker 1997; Weir 1997; Walsh et al. 1999; Cui 1999; Bulcke et al. 1999; Weldon et al. 1999; Wong et al. 1999) argue that the joint venture model has lost its appeal in China because of major institutional changes<sup>1</sup> and its own internal difficulties. However, there is no indication so far in the literature as to the impacts of external and internal changes on the process and pattern of evolution of joint ventures.

The primary findings of this study contribute to the literature by identifying a distinctive process and pattern of evolution found in Dalian-based joint ventures in the face of China's economic transition. A summary of the main research findings is as follows:

### **(1) External Changes Accelerated Internal Changes in Joint Ventures**

By examining the relationship between external changes and joint venture internal difficulties, this study has revealed that in the process of China's economic transition, the state government and local authorities were under pressure to relax the control over foreign direct investment to boost the inflow of foreign investment and help create jobs. The relaxation included reducing the differences between a joint venture and a wholly foreign-owned enterprise, free ownership transfers between joint venture partners, and less government pressure on setting up joint ventures. The relaxation state has had impacts on the general business environment as well as working of joint ventures at the firm level.

However, this study finds that apart from the impacts resulting from changes in the external environment, the changing nature of internal difficulties have also undermined the ventures' stability and are a critical factor in joint venture's evolution. Quiet unofficial ownership transfer from Chinese to overseas partners happened before 1996, which was not exactly allowed by the government. As a result, frustrated by unprofitable joint operations and constant disputes over the ventures' strategic and operational issues,

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<sup>1</sup> In particular, relaxation of restrictions on certain sectors, and of domestic market restriction for wholly foreign-owned enterprises.

many Chinese state-owned partners quietly pulled out of joint ventures without the local authority's approval.

## **(2) The New Power Relationships Resulted in Changes in Partners' Strategies, Ownership and Organisational Structures**

With further development of economic reforms and the impact of the Asian financial crisis, the Chinese government and local authorities were more concerned with what overseas investors could bring to China than how deals were actually structured. The Chinese government relaxed controls over foreign direct investment, lessened its insistence on joint venture being the preferred form of foreign direct investment, and encouraged wholly foreign-owned enterprises. The institutional changes had finally removed the technical differences between a joint venture and a wholly foreign-owned enterprise in terms of sector restriction, domestic market entry, and taxation.

At the same time, having gained extensive business experience in China, overseas joint venture partners no longer see their Chinese counterparts as vital to the joint businesses. Worse still, negative contributions from each partner are often found to outweigh the positive ones. Overseas partners therefore shift their local dependency from the Chinese partner to Chinese staff recruited locally by themselves, while Chinese partners trying to set up their own marketing and sales operations abroad. Moreover, the lifting of the ban on ownership share transfer from the Chinese to overseas partners has allowed overseas partners to actively buy out their Chinese partners.

As a result, power relationships have tipped in favour of the overseas partners, giving them a better position in initiating strategies to acquire a majority or even a complete ownership stake and operate the ventures independently. As the Chinese partners' position is weakened they have to seek compromise when transferring ownership shares to overseas partners. Their bargaining power is further undermined by the central government and local authorities who want to keep existing overseas investors and attract more foreign direct investment projects in the region.

The active involvement by private Chinese firms in joint venture projects has made the power relationships more complicated. The true motive for most private Chinese firms to enter into a joint venture with an overseas partner is to obtain import/export licences and government incentives such as taxation holidays, cheaper land and premises. As long as they can achieve such goals, they are able to compromise on other issues, such as the ownership structure and operational management. In many cases, private Chinese firms have formed a joint venture with an overseas partner only in name, leading to a 'shell' joint venture. This is possible because private Chinese firms are subject to much less control by the government.

### **(3) Internal Changes Resulted in Joint Ventures' Evolution**

The new power relationships have resulted in a dramatic shift in venture partners' efforts from mutual adaptation to the development of independent strategies. With increased bargaining power and the shift of their local dependency from Chinese partners to Chinese staff recruited locally, overseas partners found it much easier to get rid of their Chinese partners rather than to adapt to their way of doing business. As a result, most overseas partners have made great efforts to obtain complete control over joint ventures by acquiring a majority or a total ownership stake from their Chinese partners. As the findings of this study show, this proves not to be a problem. With transferred products, technology and equipment, as well as modern management system, many state-owned Chinese partners are willing to pull out of unprofitable joint ventures and develop their own businesses. These pave the way for joint ventures to evolve.

Some unofficial ownership transfers from Chinese partners to overseas partners quietly took place before 1996. This marked some early signs of joint ventures' evolution. Dramatic changes in China's business environment in the middle of the 1990s, particularly after 1996, plus subsequent changes in joint venture partners' strategies, ownership structure, and operational management accelerated the process of their evolution.

Evolution of joint ventures can be defined as a major change in relationship status, such as shifts in the ownership structure or the ventures' termination. With the identification of the pattern of evolution of Dalian-based joint ventures, this study indicates that in some Dalian cases shifts in the ownership structure may go beyond changes in ownership distributions. It is a trend that some joint ventures are converted into wholly owned enterprises, nevertheless, an additional form of joint venture exits. Other forms of joint venture's evolution include the emerging of an increasing number of 'shell' joint ventures and strategic partnerships between Chinese and overseas partners.

#### **(4) Better Performance of Converted Ventures**

The findings from the questionnaire survey and the in-depth interviews reveal that joint ventures generally performed poorly. Joint ventures are also unstable, which is reflected in the shifts in partners' strategies, reconfiguration of the joint venture's ownership structure, reduction in the degree of local dependence and conflicts about operational management. This implies that, in China, the joint venture model restricts the extent of partners' resource commitment. In contrast to the poor performance of joint ventures, this study finds that those converted ventures, in particular 'shell' joint ventures, perform better. The major reason for this is that one party's total control can greatly reduce operational and management difficulties. In addition, converted ventures have reinforced the controlling party's determination of resource commitment, which are evidenced in further injections of capital into the ventures and acceleration of technology transfer from parent companies.

## **8.2 Implications of This Research**

The findings of this study have the following implications. They are relevant for the theoretical and investment in China, as well as in many other transition economies.

### **(1) Dramatic Shifts in Partners' Commitment to Mutual Adaptation**

Previous studies on the development of China-based joint ventures are locked into mutual adaptations between joint venture partners and the means of making joint venture deals work. The current study shows that joint venture partners are starting to abandon

commitment to mutual adaptation for complete independent controls. With the relaxation of government control over joint ventures, venture partners find it is much easier to get rid of their counterparts rather than adapt to them.

## **(2) In China, Ownership Shares No Longer a Good Indication of Control**

According to previous studies on the control of international joint ventures, equity shares are the only significant predictor of strategic control over joint ventures, as the percentage of equity shares is directly linked to board memberships and appointment of key executives. Child and Yan (1999) further argued that equity share is the major lever for the exercise of control over strategic matters, such as use of profits, re-investment policy, setting strategic priorities and allocating top management appointments. This study demonstrates that the controlling power acquired by holding a majority stake no longer matters to joint ventures in the context of China's current business environment. Firstly, joint venture ownership shares can be quietly transferred from one partner to another, ignoring the existence of regulations against such transfers. In these joint ventures, ownership shares can be manipulated such that one of the partners is only a 'token' one. Hence, no matter how the 'ownership shares' are distributed, there is no real problem about who is in control and to what extent the control be exercised.

## **(3) 'Shell' Joint Ventures – An Additional Exit Mechanism**

The Chinese government restricted ownership transfer from Chinese partners to overseas partners before 1996. This forced Chinese partners to maintain their majority stakes and control over joint ventures at that time. However, this policy had also triggered many quiet, unofficial ownership transfer deals between joint venture partners. Frustrated by difficulties with joint operations, many overseas partners would have liked to end their joint ventures, but the potential of the Chinese market is too huge for them to give up. Hence, some unofficial deals were made between joint venture partners. With more involvements in foreign direct investment activities by private Chinese firms, there has emerged more expedient joint venture activities. Instead of dissolution or termination, 'shell' joint ventures have emerged as a unique exit mechanism for Dalian-based joint ventures.



Within a 'shell' joint venture, one of the partners has pulled out but it is still officially recorded as a joint venture because it was not officially terminated. These 'shell' ventures still enjoy government incentives granted to normal joint ventures. There is growing evidence that Dalian government officials have unofficially recognised these shell joint ventures as one of the accepted official exit mechanisms for run-down joint ventures.

Before 1997, most 'shell' joint ventures did not have a Chinese partner. But after 1997, as the restrictions have been relaxed to allow overseas investors to be majority stake holders or to wholly own their ventures through official ownership transfer, the number of foreign-owned shell companies has declined. On the other hand, shell joint ventures owned by private Chinese firms are rapidly increasing in number, because many fresh private Chinese entrepreneurs tend to establish shell joint ventures as a first step in developing their businesses.

#### **(4) Joint Venture Model Has Lost Its Appeal**

The joint venture is only a temporary vehicle, which was useful for setting up operations in the Chinese market in the 1980s and the early 1990s. It will not last long in the transitional Chinese economy. With changes in China's business environment, in the power relationships between Chinese and overseas partners, and in the partners' interdependency, joint ventures will eventually evolve into wholly owned ventures, 'shell' joint ventures, or strategic partnerships.

In conclusion, most Dalian-based joint ventures are not purely commercial agreements between Chinese and overseas partners. Rather, they are a product of strategic compromise between partners designed for entry into a complex market as defined by China's specific political, economic, and social and technological situations. The joint venture model will lose its appeal when it evolves in response to the internal and external changes. The process of evolution of Dalian-based joint ventures should, therefore, be viewed as a means to bring an end to joint ventures. If the joint venture model is a marriage with 'same bed, different dreams', the wholly foreign-owned enterprise model,

with its flexibility and managerial control, fits in excellently with China's transitional business environment. Hence, there is new hope for existing China-based joint ventures to find more effective ways to operate and grow in a country with great potential, and this might be followed by relatively long-term stability in converted joint ventures.

### **8.3 Limitations of This Study and Areas for Future Research**

The validity of conclusions drawn is contingent upon the recognition of several factors. These factors are related to both the survey sample and the methodology adopted. First, this research was essentially exploratory. The purpose of the research was to identify variables impacting on the changes in joint ventures and their evolution, and not to provide a complete management solution analysis. However, the richness of the information derived from this research provides a good foundation for follow-up fieldwork. Secondly, whilst it has been possible in the research to validate a number of determinants of joint venture patterns of evolution, it has not been possible to determine precisely the interrelationship between the variables by multivariate analysis.

With respect to data limitation, a number of points can be raised. First, the survey sample was limited to Dalian, although it was certainly representative of China-based joint ventures in at least the North East of China. Secondly, the survey sample and interviewees were selected by the relevant government departments and the Dalian Association of Foreign-Funded Enterprises. The sample was therefore limited to joint ventures which were members of the Association and doing relatively well. Thirdly, the survey included joint ventures in both the manufacturing and service sectors, and in view of this, the statistical relevance of the findings had to be interpreted with caution. Fourthly, some published data on foreign direct investment from local government departments was included in this research. However, these official data may not be accurate enough because of the way in which the data was collected by the Dalian municipal government, i.e. negative information referring to foreign direct investment was usually not fully published.

In the coming years, in line with the central government's policy of continuing to encourage foreign direct investment, there is likely to be a great increase in wholly foreign-owned enterprises, together with more wholly owned ventures converted from existing joint ventures. Moreover, with one partner having complete control within a venture, there should be relatively long-term stability for most converted ventures and a great reduction in the failure rate of China-based foreign-invested enterprises. China's political climate, business environment, and business culture will continue to pose great challenges to overseas investors. Hence, this study offers the following areas for future research:

### **(1) Further Adaptability to the Chinese Business Environment**

Since external and internal triggers often create a set of new environmental contingencies that affect a firm's performance and growth prospects, further adaptation to China's business environment, which can be prone to change, should be a constant focus for both Chinese and overseas investors, as well as for business researchers.

### **(2) Human Resources Localisation**

Local recruitment of management staff has surfaced as a real priority in the operations of existing joint ventures and converted ventures. Hence, business studies on the human resources of China-based joint ventures should focus on Chinese staff, employed by overseas investors, and on how, as well as to what extent, these Chinese staff can therefore establish and maintain complex networks of communications and relationships in the marketplace.

### **(3) Potential Competitors**

In addition to the challenges from other wholly foreign-owned enterprises as in the case of the 'cola war' between Coca Cola and Pepsi, the real future challenge for overseas investors in China would come from those former Chinese joint venture partners, who are equipped with transferred products, technologies and management skills.

#### **(4) Chinese Partners from the Private Sector**

The possibility of creating new, privately owned business entities has been given an unexpected and astonishing boost by the central government with its announcement that “all but 1000 of China’s 300,000 state-owned enterprises would soon be made available for privatisation” (Jiang Zemin 1997)<sup>2</sup>. Many of them would be actively engaged in joint venture projects. To deal with private Chinese partners would be a new challenge for overseas investors as well as a new topic for business researchers, since private Chinese partners might be completely different from those coming from state-owned sectors.

#### **(5) Potential Outward Investment by Chinese Enterprises**

At present, there are few studies in the literature on outward investment by either state-owned or privately owned Chinese companies. Being frustrated with joint operations and the willingness of overseas partners to give up China-based joint ventures, several state-owned Chinese partners interviewed claimed that they would expand their businesses into the international market by direct investment. Future business research should also pay special attention to the development of China’s outward investment strategies. With a developed capability to produce quality products, as well as the advanced technology they have acquired, Chinese enterprises are emerging to tap overseas markets with ambitious strategies, e.g. to use China-made components for assembling and marketing their products abroad.

This outward investment strategy is fully encouraged by the central government. According to the statistics from One NorthEast – the Regional Development Agency for the North-east of England – between May 2000 and the end of 2002, 42 mainland Chinese enterprises established their wholly owned subsidiaries in the region to market their products, or are carrying out marketing research with a view to establishing manufacturing factories. The motivation behind this action on the part of Chinese enterprises is the desire to have direct access to international markets previously controlled by their overseas joint venture partners. These Chinese companies are also

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<sup>2</sup> Speech at the 15<sup>th</sup> Party Congress in Beijing 1997. Jiang Zemin was then the President of China.

aiming to create jobs domestically, as this will make fuller use of their production capacity to manufacture components for their assembly lines abroad.

Furthermore, the evolving strategies of China-based joint ventures could also be a new focus of international business studies. Finally, but no less importantly, the emergence of 'shell' joint ventures also invites future research and reconceptualisation. This could yield interesting and significant information, which may prove to be of profound importance to the theory of international joint ventures in transition economies.

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# Appendices

## **Appendix I – Format of Questionnaire**

The following is a general format of the questions used in the questionnaire.

Company profile      Name and address of the company, position of the respondent, nationality, and involvement with the company.

### Section 1 – Formation of the joint venture

Questions 1 – 10      Names of Chinese and overseas parent companies; Setting up date of the joint venture; sector; number of employees; changes in joint venture's ownership since establishment; joint venture terms.

### Section 2 – Strategies of the joint venture

Questions 11 – 14      Joint venture's development strategies: motivations in setting up the joint venture, initial and present strategies of the Chinese and overseas partners.

### Section 3 – Structures of the joint venture

Questions 15 – 18      Joint venture's organisational structure: changes in the position of general manager, nationality, terms, changes in joint venture's organisational structure over time, and the ratio of management staff to workers.

### Section 4 – Operations of the joint venture

Questions 19 – 23      Joint venture's operation: decision-making; changes in the percentage of overseas and domestic sales; changes in the sales force; product quality; and the percentage of locally supplied raw materials.

### Section 5 – Management of the joint venture

Questions 24 – 41 Joint venture's management-related issues such as teamwork; relationships between management team and workers; cross-cultural management issues.

### Section 6 – Industrial relationships

Questions 42 – 55 Joint venture's working relationships between management and workforce, teamwork, disagreement and cross-cultural management related issues.

### Section 7 – Policies of employees of the joint venture

Questions 56 – 74 Joint venture's personnel policy: changes in staff and worker recruitment; employee training program; working position rotation; promotion; salary/wages; housing; company meals; employees' turnover rate and reasons.

### Section 8 – Driving forces for joint venture instability

Questions 75 – 77 Major factors affecting joint venture's management and operation: changes in external and internal environments; major conflicts between Chinese and overseas partners as well as possible shift in joint venture partners' strategies.

### Section 9 – Future outlook

Questions 78 – 80 Future outlooks from both Chinese and overseas partners; perspective further increase in capital investment.

填表日期: \_\_\_\_\_

### 中外合资企业

#### 调查问卷

合资公司名称: \_\_\_\_\_

( ) 公司董事长由中方人员担任

( ) 公司董事长由外方人员担任

合资公司地址: \_\_\_\_\_

董事会成员:

中方董事会 成员人数: \_\_\_\_\_

外方董事会 成员人数: \_\_\_\_\_

答卷人的职务: \_\_\_\_\_

7 合资公司的经营方式为:

参加合资公司的时间: \_\_\_\_\_

a. 公司建立初期:

( ) 制造

( ) 来件组装

( ) 代客加工

答卷人的国籍: \_\_\_\_\_

( ) 设计

( ) 其它, 请说明 \_\_\_\_\_

(请您在适当的括号内画上“√”, 或按该问题的特殊要求填写。)

b. 现阶段:

( ) 制造

( ) 来件组装

( ) 代客加工

#### 第一部分 公司基本情况

( ) 设计

( ) 其它, 请说明 \_\_\_\_\_

1 中方母公司名称: \_\_\_\_\_

8 合资公司的产品: \_\_\_\_\_

2 外方母公司名称: \_\_\_\_\_

9 合资经营的合同年限:

( ) 1 - 10 年 ( ) 11 - 20 年

( ) 21 -30 年 ( ) 30 年以上

3 合资公司的建立时间: \_\_\_\_\_

4 目前合资公司的员工总数: \_\_\_\_\_

10 合资公司是否已经投产?

( ) 是, 投产时间为: \_\_\_\_\_

( ) 还没有投产

5 合资公司的资本构成:

a. 公司建立初期:

中方股份占: \_\_\_\_\_%

外方股份占: \_\_\_\_\_%

b. 现阶段:

中方股份占: \_\_\_\_\_%

外方股份占: \_\_\_\_\_%

目前合资公司是否已经盈利?

( ) 已盈利

( ) 收支平衡

( ) 亏损

6 合资公司董事会的设置:

董事长: \_\_\_\_\_



## 第二部分 合资公司的发展战略

### 11 建立合资公司的主要战略目标

合资公司中方的战略目标为：

- 利用外方资金
- 引进国外先进技术和管埋技术
- 引进国外先进产品
- 创造就业机会

其它：\_\_\_\_\_

目前以上目标实现的情况大约为：

- 已全部实现
- 已部分实现
- 基本没有实现

合资公司外方的战略目标为：

- 迅速进入巨大的中国市场
- 享受中国政府的财务及税务优惠
- 将生产基地转移至最低成本地区
- 为国际市场建立一个出口基地
- 以加强国际间竞争力度

其它：\_\_\_\_\_

目前以上目标实现的情况大约为：

- 已全部实现
- 已部分实现
- 基本没有实现

### 12 合资公司双方目前共同的目标为：

- 各级管理人员当地化
- 绝大部分产品原材料国产化
- 扩大国内市场的销售额
- 被看作一个真正的中国公司
- 为母公司赚取大笔利润

其它：\_\_\_\_\_

目前以上目标实现的情况大约为：

- 已全部实现
- 已部分实现
- 基本没有实现

### 13 合资公司中方看中外方合作伙伴的条件是：

- 双方母公司领导层的相互信任
- 良好的国际形象及雄厚的实力
- 国际名牌产品或产品技术先进
- 具有使合资企业产品出口潜能

其它：\_\_\_\_\_

外方合作伙伴是否真正具备了以上的条件？

- 完全具备

基本具备

没有具备

### 14 合资公司外方看中中方合作伙伴的条件是：

- 对中国国内市场的知识
- 与当地府良好的关系
- 有相关产品
- 现有的产品销售渠道
- 由保障的原材料来源
- 对先进技术的吸收能力
- 现成的土地或厂房
- 有国际间合作的经验

其它：\_\_\_\_\_

外方合作伙伴是否真正具备了以上的条件？

完全具备

基本具备

没有具备

## 第三部分 合资公司的组织结构

### 15 合资公司总经理的设置：

a. 公司建立初期：

- 公司总经理由中方人员担任  
任期为：( ) 年
- 公司总经理由外方人员担任  
任期为：( ) 年
- 公司总经理由第三方人员担任  
任期为：( ) 年

b. 现阶段：

- 公司总经理由中方人员担任  
任期为：( ) 年
- 公司总经理由外方人员担任  
任期为：( ) 年
- 公司总经理由第三方人员担任  
任期为：( ) 年

### 16 合资公司的部门设置

a. 公司建立初期：

- 人事行政部
- 生产部
- 财务部
- 工程技术部
- 市场销售部
- 质量保证部

其它：\_\_\_\_\_

b. 现阶段：

- 人事行政部
- 生产部
- 财务部
- 工程技术部

- ( ) 市场销售部  
( ) 质量保证部  
其它: \_\_\_\_\_

17 目前公司管理人员的比例

- ( ) 比较大: \_\_\_\_\_%  
( ) 比较小: \_\_\_\_\_%

18 公司的等级制度结构非常明确

- ( ) 是的  
( ) 不是

第四部分 合资公司的运作

19 合资公司的主要决策权在何方?

a. 制定合资公司的长期规划(5-10年)

- ( ) 合资公司总经理  
( ) 中方母公司  
( ) 英方母公司  
( ) 合资公司董事会

其它: \_\_\_\_\_

b. 制定年度预算:

- ( ) 合资公司总经理  
( ) 中方母公司  
( ) 英方母公司  
( ) 合资公司董事会

其它: \_\_\_\_\_

c. 制定产量及利润目标

- ( ) 合资公司总经理  
( ) 中方母公司  
( ) 英方母公司  
( ) 合资公司董事会

其它: \_\_\_\_\_

d. 制定生产计划

- ( ) 合资公司总经理  
( ) 中方母公司  
( ) 英方母公司  
( ) 合资公司董事会

其它: \_\_\_\_\_

e. 制定产品销售价格

- ( ) 合资公司总经理  
( ) 中方母公司  
( ) 英方母公司  
( ) 合资公司董事会

其它: \_\_\_\_\_

f. 管理人员的任免及员工的增减

- ( ) 合资公司总经理

- ( ) 中方母公司  
( ) 英方母公司  
( ) 合资公司董事会

其它: \_\_\_\_\_

20 合资公司产品的销售

a. 合资公司建立初期

- 出口比例为: \_\_\_\_\_%  
内销比例为: \_\_\_\_\_%

( ) 内销主要依靠中方母公司现有的销售网络

( ) 内销主要依靠合资公司自己的销售人员

b. 现阶段:

- 出口比例为: \_\_\_\_\_%  
内销比例为: \_\_\_\_\_%

( ) 内销主要依靠中方母公司现有的销售网络

( ) 内销主要依靠合资公司自己的销售人员

21 合资公司产品的质量(根据用户的反馈报告)

a. 合资公司投产初期:

- ( ) 产品质量很好  
( ) 产品质量一般  
( ) 产品质量不好  
( ) 产品质量很差

b. 现阶段的情况:

- ( ) 产品质量很好  
( ) 产品质量一般  
( ) 产品质量不好  
( ) 产品质量很差

22 公司产品原材料/零配件国产化比例

- a. 投产初期的比例为: \_\_\_\_\_%  
b. 现阶段比例为: \_\_\_\_\_%

23 合资公司管理人员的地方化:

a. 公司建立初期:

- 外籍管理人员的人数: \_\_\_\_\_  
中方管理人员的人数: \_\_\_\_\_

b. 现阶段:

- 外籍管理人员的人数: \_\_\_\_\_  
中方管理人员的人数: \_\_\_\_\_

第五部分 合资公司的管理

24 管理人员应享有特权

- ( ) 是的  
( ) 不是

25 管理人员较多地参与工作细节  
( ) 是的  
( ) 不是

26 明确的工作要求或指示  
管理人员工作时需要有明确的要求或指示  
( ) 是的  
( ) 不是

工人工作时需要有明确的要求或指示  
( ) 是的  
( ) 不是

27 管理人员很少作出个人的决定  
( ) 是的  
( ) 不是

28 管理人员均害怕失败  
( ) 是的  
( ) 不是

29 普遍认为集体决定比个人决定要好  
( ) 是的  
( ) 不是

30 管理人员认为冲突和竞争可引发侵人之心, 因此应加以避免  
( ) 是的  
( ) 不是

31 管理人员认为不同的意见和持不同意见者都是危险的, 不可容忍的  
( ) 是的  
( ) 不是

32 下属的主观能动性应得到有效控制  
( ) 是的  
( ) 不是

33 员工均很难向对手作出让步  
( ) 是的  
( ) 不是

34 员工多因感情的因素而抵制公司内部变革  
( ) 是的  
( ) 不是

35 年轻人很难受到上司的充分信任  
( ) 是的  
( ) 不是

36 公司须有书面的纪律或规则

( ) 是的  
( ) 不是

37 公司为员工提供统一的工作服  
( ) 是的  
( ) 不是

38 控制不稳定势态多通过使用权力  
( ) 是的  
( ) 不是

39 管理人员很追求一致和次序  
( ) 是的  
( ) 不是

40 政策的制定和执行常根据人际关系的不同而改变  
( ) 是的  
( ) 不是

41 公司的利益可作为干涉员工私生活的合法理由  
( ) 是的  
( ) 不是

## 第六部分 合资公司的劳资关系

42 管理人员视下属为另一类人  
( ) 是的  
( ) 不是

43 下属视上司为另一类人  
( ) 是的  
( ) 不是

44 管理人员应尽量显示出自己的权势  
( ) 是的  
( ) 不是

45 员工之间很难合作, 因为彼此的信任度很低  
( ) 是的  
( ) 不是

46 团队合作  
管理人员之间  
a. 公司建立初期:  
( ) 很好  
( ) 一般  
( ) 很差  
b. 现阶段情况:  
( ) 很好

- ( ) 一般  
( ) 很差

普通员工时间

a. 公司建立初期:

- ( ) 很好  
( ) 一般  
( ) 很差

b. 现阶段情况:

- ( ) 很好  
( ) 一般  
( ) 很差

47 员工是否敢向上司表达不同意见?

a. 公司建立初期:

- ( ) 敢  
( ) 不敢

b. 现阶段情况:

- ( ) 敢  
( ) 不敢

48 员工们很难相互信任

- ( ) 是的  
( ) 不是

49 员工易于去投奔待遇较好的公司

- ( ) 是的  
( ) 不是

50 员工对公司有强烈的依赖感

- ( ) 是的  
( ) 不是

51 员工期望公司对他们有家庭成员式的照顾;一旦公司有负于员工,他们就会极力疏远公司

- ( ) 是的  
( ) 不是

52 公司的优劣对员工个人的利益具有极大的影响

- ( ) 是的  
( ) 不是

53 员工总期望公司来维护他们的个人利益

- ( ) 是的  
( ) 不是

54 员工对做同样工作的男性和女性持有不同的价值观

- ( ) 是的  
( ) 不是

55 女性很少得到高级别,高工资的职务

- ( ) 是的  
( ) 不是

## 第七部分 合资公司的员工政策

56 员工的聘用

管理人员:

a. 公司建立初期:

- ( ) 由中方母公司选派  
( ) 从当地人才市场聘用  
( ) 其它途径

b. 现阶段情况:

- ( ) 由中方母公司选派  
( ) 从当地人才市场聘用  
( ) 其它途径

普通工人

a. 公司建立初期:

- ( ) 由中方母公司选派\_\_\_\_\_ %  
( ) 从当地人才市场聘用\_\_\_\_\_ %  
( ) 其它途径\_\_\_\_\_ %

b. 现阶段情况:

- ( ) 由中方母公司选派\_\_\_\_\_ %  
( ) 从当地人才市场聘用\_\_\_\_\_ %  
( ) 其它途径\_\_\_\_\_ %

57 对员工的聘用十分注重身份和地位

- ( ) 是的  
( ) 不是

58 管理人员必须是本行业的专家

- ( ) 是的  
( ) 不是

59 工作职责

公司有完善的管理人员工作职责

- ( ) 有  
( ) 没有

公司有完善的员工工作职责

- ( ) 有  
( ) 没有

开业以来员工的培训和发展

管理人员的培训方法:

- ( ) 由外方母公司派人来华进行在岗培训  
( ) 选派中方管理人员去国外培训  
( ) 选派中方管理人员去外方母公司所属的其它合资企业培训  
( ) 聘请大专院校教师来公司培训  
( ) 公司为员工安排外语培训

普通工人的培训方法

- ( ) 由外方母公司派人来华进行在岗培训
- ( ) 选派中方工人去国外培训
- ( ) 选派中方员工去外方母公司所属的其它合资企业培训
- ( ) 聘请当地大专院校教师来公司培训
- ( ) 公司为工人安排外语培训

61 工人岗位轮换的机会

a. 公司建立初期:

- ( ) 很多
- ( ) 一般
- ( ) 很少

b. 现阶段情况:

- ( ) 很多
- ( ) 一般
- ( ) 很少

62 员工十分在意培训和是否学有所用

- ( ) 是的
- ( ) 不是

63 管理人员常把职责,专业和威望作为追求的目标

- ( ) 是的
- ( ) 不是

64 员工十分关注职业的稳定性

- ( ) 是的
- ( ) 不是

65 自开业以来员工的提升机会

- ( ) 很多
- ( ) 一般
- ( ) 很少

普通工人被提升的机会

- ( ) 很多
- ( ) 一般
- ( ) 很少

66 管理人员的提拔多出自公司内部并多为论资排辈

- ( ) 是的
- ( ) 不是

67 管理人员的平均年龄偏高

- ( ) 是的
- ( ) 不是

68 成就意味着提升和财富

- ( ) 是的

- ( ) 不是

69 员工福利

员工的工资水平(以当地合资企业的平均水平为准)

a. 公司建立初期:

- ( ) 很高
- ( ) 一般
- ( ) 较低

b. 现阶段的情况:

- ( ) 很高
- ( ) 一般
- ( ) 较低

70 员工普遍认为较高的工资和较少的工作时间最为理想

- ( ) 是的
- ( ) 不是

71 只要能有更多的收入,员工不在乎过多地加班

- ( ) 是的
- ( ) 不是

72 员工的住宿情况

a. 公司建立初期

- ( ) 公司提供住房
- ( ) 公司不提供住房,但提供住房补贴
- ( ) 公司提供住房,也提供住房补贴

b. 现阶段的情况:

- ( ) 公司提供住房
- ( ) 公司不提供住房,但提供住房补贴
- ( ) 公司提供住房,也提供住房补贴

73 员工膳食

a. 公司建立初期:

- ( ) 公司提供\_\_\_\_\_餐
- ( ) 公司不提供膳食,但提供膳食补贴
- ( ) 公司不提供膳食,也不提供膳食补贴

b. 现阶段的情况:

- ( ) 公司提供\_\_\_\_\_餐
- ( ) 公司不提供膳食,但提供膳食补贴
- ( ) 公司不提供膳食,也不提供膳食补贴

74 员工的离职率

a. 公司建立初期:

- ( ) 很高
- ( ) 一般
- ( ) 较低

其主要原因是:

- ( ) 其它公司的高薪招聘
  - ( ) 本公司没有住房
  - ( ) 本公司不提供膳食
  - ( ) 本公司的工资太低
  - ( ) 本公司没有提升的机会
  - ( ) 本公司工作条件太差
  - ( ) 外籍经理的离职
- 其它: \_\_\_\_\_

b. 现阶段的情况:

- ( ) 很高
- ( ) 一般
- ( ) 较低

其主要原因是:

- ( ) 其它公司的高薪招聘
  - ( ) 本公司没有住房
  - ( ) 本公司不提供膳食
  - ( ) 本公司的工资太低
  - ( ) 本公司没有提升的机会
  - ( ) 本公司工作条件太差
  - ( ) 外籍经理的离职
- 其它: \_\_\_\_\_

### 第八部分 影响合资公司经营与管理的主要原因

#### 75 影响合资公司运作的外部环境问题

a. 公司建立初期:

- ( ) 中国的政治局势不稳
- ( ) 针对外企的法律, 规章多变
- ( ) 交通, 水电等基础设施不完善
- ( ) 当地行政部门工作效率不高
- ( ) 合资中方对合资公司干涉过多
- ( ) 合资外方难于将得到利润转回本国
- ( ) 中外双方不同的管理方式
- ( ) 难于得到中国的原材料
- ( ) 中国政府对外资企业进入国内市场的限制

b. 现阶段:

- ( ) 中国的政治局势不稳
- ( ) 针对外企的法律, 规章多变
- ( ) 交通, 水电等基础设施不完善
- ( ) 当地行政部门工作效率不高
- ( ) 合资中方对合资公司干涉过多
- ( ) 合资外方难于将得到利润转回本国
- ( ) 中外双方不同的管理方式
- ( ) 难于得到中国的原材料
- ( ) 中国政府对外资企业进入国内市场的限制

90年代我国政府的外商投资政策曾作过一些调整, 请列出几条对外资企业影响最大的政策调整

a. 最具正面影响的政策: \_\_\_\_\_

b. 最具负面影响的政策: \_\_\_\_\_

#### 76 影响合资公司运作的内部环境问题

a. 公司建立初期:

- ( ) 中外双方文化传统上的差异
- ( ) 中外双方在合资公司运作与管理方面的诸多分歧
- ( ) 中外双方语言上的障碍
- ( ) 培养当地管理和技术人员不易
- ( ) 难以利用中方现有的销售渠道
- ( ) 中外双方管理人员合作欠佳
- ( ) 中方员工文化水平较低
- ( ) 工人生产效率不高
- ( ) 公司管理及技术人员流失严重
- ( ) 产品质量难于控制
- ( ) 难于聘请当地管理和技术人员
- ( ) 超额的交际费用

b. 现阶段:

- ( ) 中外双方文化传统上的差异
- ( ) 中外双方在合资公司运作与管理方面的诸多分歧
- ( ) 中外双方语言上的障碍
- ( ) 培养当地管理和技术人员不易
- ( ) 难以利用中方现有的销售渠道
- ( ) 中外双方管理人员合作欠佳
- ( ) 中方员工文化水平较低
- ( ) 工人生产效率不高
- ( ) 公司管理及技术人员流失严重
- ( ) 产品质量难于控制
- ( ) 难于聘请当地管理和技术人员
- ( ) 超额的交际费用

#### 77 中外双方在公司经营与管理方面的主要分歧

a. 公司建立初期:

- ( ) 中外双方对外籍经理收入, 福利及任职年限方面的意见分歧
- ( ) 中外双方对合资公司中外籍员工数量方面的意见分歧
- ( ) 中外双方对合资公司中方高级管理人员人事安排方面的意见分歧
- ( ) 中外双方对合资公司管理方面的意见分歧

- ( ) 中外双方对合资公司部门设置方面的意见分歧
- ( ) 中外双方对合资公司产品外销数量及价格的意见分歧
- ( ) 中外双方对中方员工工资及奖金方面的意见分歧
- ( ) 中外双方对中方员工住房, 伙食, 医疗及休假等福利方面的意见分歧
- ( ) 中外双方对合资公司建立工会的意见分歧

( ) 将撤资

80 合资公司各方是否有增加投资的计划?

- ( ) 双方已增资, 总金额为: \_\_\_\_\_
- ( ) 各方尚无增资计划
- ( ) 可能增资, 较目前实际投资额增加 \_\_\_\_\_%

b. 现阶段的情况:

- ( ) 中外双方对外籍经理收入, 福利及任职年限方面的意见分歧
- ( ) 中外双方对合资公司中外籍员工数量方面的意见分歧
- ( ) 中外双方对合资公司中方高级管理人员人事安排方面的意见分歧
- ( ) 中外双方对合资公司管理方面的意见分歧
- ( ) 中外双方对合资公司部门设置方面的意见分歧
- ( ) 中外双方对合资公司产品外销数量及价格的意见分歧
- ( ) 中外双方对中方员工工资及奖金方面的意见分歧
- ( ) 中外双方对中方员工住房, 伙食, 医疗及休假等福利方面的意见分歧
- ( ) 中外双方对合资公司建立工会的意见分歧

以上这些问题是否经常出现? \_\_\_\_\_

以上这些问题在企业中存在有多长时间了?

— 以上这些问题是怎样解决的? \_\_\_\_\_

## 第九部分 合资公司发展前景

78 中方认为:

- ( ) 前景很好
- ( ) 前景不乐观
- ( ) 目前很难预料
- ( ) 将更换合作伙伴
- ( ) 将撤资

79 外方认为:

- ( ) 前景很好
- ( ) 前景不乐观
- ( ) 目前很难预料
- ( ) 将更换合作伙伴

## Questionnaire

### Joint Venture Company In PR China

Name of the Company: \_\_\_\_\_

No. of directors from Foreign partner: \_\_\_\_\_

Address of the Company: \_\_\_\_\_

7 Joint venture's business:

a. In the early stage:

( ) Full manufacturing

( ) Assembly with supplied parts

( ) Product parts processing

( ) Products design

( ) Others, (please specify) \_\_\_\_\_

b. At present:

( ) Full manufacturing

( ) Assembly with supplied parts

( ) Product parts processing

( ) Products design

( ) Others, (please specify) \_\_\_\_\_

Job Title of the Respondent: \_\_\_\_\_

Length of Service in the Company: \_\_\_\_\_

Nationality of the Respondent: \_\_\_\_\_

8 Joint venture's products:

(Please mark '√' in related blanket, or answer the questions according to the question's specific requirement)

#### Section 1. Joint Venture's Formation

1 Name of the Chinese parent company:

9 Joint venture's contract term

( ) 1-10 years ( ) 11-20 years

( ) 21-30 years ( ) over 30 years

2 Name of the foreign parent company:

10 Is the joint venture put into operation?

( ) yes, the date of operation was: \_\_\_\_\_

( ) no, not yet

3 Date of the joint venture first established:

- According to the last year's financial report, is there any profit?

( ) yes

( ) just keep the balance

( ) deficit

4 Total number of employees at present:

#### Section 2. Joint Venture's Strategies

5 Joint venture's capital formation:

a. In the early stage:

- Chinese party's total shares: \_\_\_\_\_%

- Foreign party's total shares: \_\_\_\_\_%

b. At present:

- Chinese party's total shares: \_\_\_\_\_%

- Foreign party's total shares: \_\_\_\_\_%

11 Joint venture's main strategic objectives

- Chinese partner's main objectives

( ) Import foreign capital

( ) Advanced new products

( ) Import advanced foreign technology and management skills

( ) Creation of more employment opportunities

6 The board of directors of the joint venture:

- Chairman:

( ) The Chairman is from Chinese partner

( ) The Chairman is from Foreign partner

- Directors:

No. of directors from Chinese partner: \_\_\_\_\_

Others: \_\_\_\_\_

- How well these objectives being achieved?

( ) very well

( ) partially

( ) poorly

- Foreign partner's main objectives



- Fast entry to the huge Chinese market
  - Attractive tax regime/financial incentives offered by Chinese government
  - Production transferred to lowest cost location
  - Create an export base for foreign market
  - To reduce international competition
- Others: \_\_\_\_\_
- How well these objectives being achieved?
- very well
  - partially
  - poorly

- 12 Joint venture's present strategic objectives
- Develop highly localised management capability
  - Localisation of majority of product parts
  - Target to dominant share of China's domestic market within industry sector
  - To be viewed as truly local player by consumers
  - Build broader multi-regional or national (presence (through sales or facilities)
  - To be significant earnings engine for parent company
- Others: \_\_\_\_\_
- How well these objectives being achieved?
- very well
  - partially
  - poorly

- 13 Expected advantages from foreign partner
- Trust between top management
  - Good international image and strong financial strength
  - Famous international recognised product or advanced technology
  - Export potential for joint venture's product
- Others: \_\_\_\_\_
- How well these advantages being achieved?
- very well
  - partially
  - poorly

- 14 Expected advantages from Chinese partner
- Local market knowledge
  - Good relationships with host government
  - Related products
  - Existing distribution channels
  - Availability of raw materials
  - Experience in technology applications
  - Existing factory buildings/land
  - International co-operation experience
- Others: \_\_\_\_\_
- How well these advantages being achieved?
- very well
  - partially
  - poorly

### Section 3. Joint Venture's Structure

- 15 Joint venture's general manager:
- a. In the early stage:
- General manager is from Chinese party  
Term: \_\_\_\_\_ years
  - General manager is from foreign party  
Term: \_\_\_\_\_ years
  - General manager is from a third party  
Term: \_\_\_\_\_ years
- b. At present:
- General manager is from Chinese party  
Term: \_\_\_\_\_ years
  - General manager is from foreign party  
Term: \_\_\_\_\_ years
  - General manager is from a third party  
Term: \_\_\_\_\_ years

- 16 Joint venture's organisation
- a. At the early stage:
- Human resources department
  - Production department
  - Accounting department
  - Engineering department
  - Marketing department
  - Quality assurance department
- Others: \_\_\_\_\_
- b. At present:
- Human resources department
  - Production department
  - Accounting department
  - Engineering department
  - Marketing department
  - Quality assurance department
- Others: \_\_\_\_\_

- 17 Is there a large proportion of supervisory personnel?
- yes, \_\_\_\_\_ %
  - no, \_\_\_\_\_ %

- 18 Hierarchy structure of the company is clear and respected
- yes
  - no

### Section 4. Joint Venture's Operation

- 19 Which party is more powerful in decision-Making
- a. Joint venture's long-term plan (5-10 years)
- Joint venture's general manager
  - Chinese parent company
  - Foreign parent company
  - Board of directors
- Others: \_\_\_\_\_
- b. Joint venture's annual budget:
- Joint venture's general manager
  - Chinese parent company
  - Foreign parent company
  - Board of directors

Others: \_\_\_\_\_

At present: \_\_\_\_\_%

c. To decide output and profit objectives

- Joint venture's general manager  
 Chinese parent company  
 Foreign parent company  
 Board of directors

Others: \_\_\_\_\_

d. To decide production plan

- Joint venture's general manager  
 Chinese parent company  
 Foreign parent company  
 Board of directors

Others: \_\_\_\_\_

e. To decide product's sales price

- Joint venture's general manager  
 Chinese parent company  
 Foreign parent company  
 Board of directors

Others: \_\_\_\_\_

f. To increase/dismiss management staff and shop-floor workers

- Joint venture's general manager  
 Chinese parent company  
 Foreign parent company  
 Board of directors

Others: \_\_\_\_\_

20 Sales of joint venture's products

a. In the early stage:

Proportion of export: \_\_\_\_\_%

Proportion of domestic sales: \_\_\_\_\_%

- Domestic sales mainly rely on Chinese parent company's existing sales channels  
 Domestic sales mainly rely on joint venture's own sales force

b. At present :

Proportion of export: \_\_\_\_\_%

Proportion of domestic sales: \_\_\_\_\_%

- Domestic sales mainly rely on Chinese parent company's existing sales channels  
 Domestic sales mainly rely on joint venture's own sales force

21 Joint venture's product quality (based on the customers' feedback reports).

a. In the early stage:

- very good  
 good  
 OK  
 not good  
 very poor

b. At present

- very good  
 good  
 OK  
 not good  
 very poor

22 Localisation of raw materials/product parts

In the early stage of production: \_\_\_\_\_%

23 Localisation of the management team

In the early stage:

No. of expatriate management staff \_\_\_\_\_

No. of expatriate engineers/technicians: \_\_\_\_\_

At present:

No. of expatriate management staff \_\_\_\_\_

No. of expatriate engineers/technicians: \_\_\_\_\_

## Section 5. Joint Venture's Management

24 Managers are entitled to have privileges.

- yes  
 no

25 Managers have involved in details.

- yes  
 no

26 Clear work requirements and instructions

a. Managers prefer clear work requirements and instructions:

- yes  
 no

b. Workers prefer clear work requirements and instructions:

- yes  
 no

27 Managers make less individual and risky decisions.

- yes  
 no

28 Managers always fear of failure.

- yes  
 no

29 Group decisions are considered better than individual decisions.

- yes  
 no

30 Managers thought conflict and competition can unleash aggression and should therefore be avoided.

- yes  
 no

31 Managers thought that deviant employees and ideas are dangerous and intolerance.

- yes  
 no

32 Initiative of subordinates should be kept under control.

- yes  
 no

33 Lower readiness to compromise with opponents.

- yes  
 no

34 More emotional resistance to the changes.

- yes  
 no

35 Younger staff are suspect.

- yes  
 no

36 Need for written rules and regulations.

- yes  
 no

37 The company provides uniform to employees.

- yes  
 no

38 More power be used to control of uncertainty.

- yes  
 no

39 Managers aspire to conformity and orderliness.

- yes  
 no

40 Policies and practices vary according to relations.

- yes  
 no

41 Company interests are a legitimate reason for interfering with people's private lives.

- yes  
 no

#### Section 6. Industrial Relationships

42 Superiors consider subordinates as being of a different kind.

- yes  
 no

43 Subordinates consider superiors as being of a different kind.

- yes  
 no

44 Managers should try to look as powerful as possible.

- yes  
 no

45 Co-operation among employees is difficult to bring about because of low faith with each other.

- yes  
 no

44 Co-operation/team work

a. In the early stage:

- Among managers/departments

- very good  
 acceptable  
 poor

b. At present:

- Among managers/departments

- very good  
 acceptable  
 poor

- Among shop-floor workers

a. In the early stage:

- very good  
 acceptable  
 poor

b. At present:

- very good  
 acceptable  
 poor

47 To express disagreement with direct superior

a. In the early stage:

- yes  
 no

b. At present:

- yes  
 no

48 Employees reluctant to trust each other.

- yes  
 no

49 Tendency to switch to a better company.

- yes  
 no

50 Employees have emotional dependence on the company.

- yes  
 no

51 Employees expect the company to look after them like a family - and Can become very alienated if the company dissatisfies them.

- yes  
 no

52 The Company has great influence on employees' well-being.

- yes  
 no

53 Employees expect the company to defend their interests.

- yes  
 no

54 Some jobs are considered typically male, others female.

- yes  
 no

55 Fewer women in management jobs

- yes  
 no

## Section 7. Joint Venture's Employees' Policies

### 56 Employee recruitment

#### - Management staff

##### a. In the early stage:

- ( ) from Chinese parent company  
( ) from public employment fair  
( ) from other sources

##### b. At present:

- ( ) from Chinese parent company  
( ) from public employment fair  
( ) from other sources

#### - Factory workers

##### a. In the early stage:

- ( ) from Chinese parent company \_\_\_\_\_ %  
( ) from public employment fair \_\_\_\_\_ %  
( ) from other sources \_\_\_\_\_ %

##### b. At present:

- ( ) from Chinese parent company \_\_\_\_\_ %  
( ) from public employment fair \_\_\_\_\_ %  
( ) from other sources \_\_\_\_\_ %

### 57 Recruitment stress on identity and roots.

- ( ) yes  
( ) no

### 58 A Manager must be an expert in the field he manages.

- ( ) yes  
( ) no

### 59 Job descriptions

#### - There are well-defined job descriptions for managers

- ( ) yes  
( ) no

#### - There are well-defined job descriptions for workers?

- ( ) yes  
( ) no

### 60 Employees' training and development since joint venture's full operation

#### - Training methods for management staff:

- ( ) on the job training by experts from foreign parent company  
( ) to send good Chinese managers to foreign countries for training  
( ) to send good managers to other joint ventures, which partly owned by the foreign partner  
( ) by trainers from local universities or related institutes  
( ) the company arranges foreign language training for manager

#### - Training methods for factory workers:

- ( ) on the job training by experts from foreign parent company  
( ) to send good workers to foreign countries for training  
( ) to send good workers to other joint

ventures for training which partly owned by the foreign partner

- ( ) by trainers from local universities or related institutes  
( ) the company arranges foreign language training for workers

### 61 Factory workers' job rotation opportunities since joint venture's full operations

- ( ) Increased  
( ) constant  
( ) decreased

### 62 Employees attached more importance to the training and use of skills in job.

- ( ) yes  
( ) no

### 63 Managers Choose duty, expertness, and prestige as life goals.

- ( ) yes  
( ) no

### 64 Employees rate having security in their jobs more important.

- ( ) yes  
( ) no

### 65 Promotion opportunities since JV's full operation

#### - Management staff's promotion

- ( ) Increased  
( ) constant  
( ) decreased

#### - Factory workers' promotion

- ( ) Increased  
( ) constant  
( ) decreased

### 66 Promotion mainly from inside and on seniority.

- ( ) yes  
( ) no

### 67 Higher average age in management jobs.

- ( ) yes  
( ) no

### 68 Achievement defined in terms of promotion and wealth

- ( ) yes  
( ) no

### 69 Benefit

#### - Salary/wages compare with joint ventures' average level in the local area.

##### a. In the early stage:

- ( ) higher  
( ) same as the average level  
( ) lower

##### b. At present:

- ( ) higher  
( ) same as the average level  
( ) lower

70 Employees prefer more salary to shorter working hours.

- yes
- no

71 Employees prefer more salary and don't mind longer working hours.

- yes
- no

72 Employees' Housing Arrangement

a. In the early stage:

- Joint venture provide housing
- Joint venture does not provide housing, but provide housing subsidy
- Joint venture does not provide neither housing nor housing subsidy

b. At present:

- Joint venture provide housing
- Joint venture does not provide housing, but provide housing subsidy
- Joint venture does not provide neither housing nor housing subsidy

73 Company's Meals Arrangement

a. In the early stage:

- Joint venture provide \_\_\_\_\_ meals
- Joint venture does not provide meals, but provide meal subsidy
- Joint venture does not provide neither meals nor meal subsidy

b. At present:

- Joint venture provide \_\_\_\_\_ meals
- Joint venture does not provide meals, but provide meal subsidy
- Joint venture does not provide neither meals nor meal subsidy

74 Employees' turnover rate

a. In the early stage :

- very high
- acceptable
- very low

The main reasons for employees' quit are:

- attracted by the higher pay by other companies
- joint venture does not provide housing
- Joint venture does not provide meals
- joint venture's low salary
- no promotion opportunities
- expatriate manager's leaving

Other: \_\_\_\_\_

b. At present:

- very high
- acceptable
- very low

The main reasons for employees' quit are:

- attracted by the higher pay by other companies
- joint venture does not provide housing
- Joint venture does not provide meals
- joint venture's low salary
- no promotion opportunities

expatriate manager's leaving

Other: \_\_\_\_\_

### Section 8. Factors Effect Joint Venture's Operations

75 External factors

a. In the early stage:

- China's unstable economic situation
- absence of detailed foreign investment laws
- insufficient infrastructures
- local government's insufficient working process
- operation is frequently interfered by the Chinese parent company
- difficulty in repatriation of income or profit
- difficulty in getting raw materials in China
- Chinese government's restriction of domestic market

Others: \_\_\_\_\_

b. At present:

- China's unstable economic situation
- absence of detailed foreign investment laws
- insufficient infrastructures
- local government's insufficient working process
- operation is frequently interfered by the Chinese parent company
- difficulty in repatriation of income or profit
- difficulty in getting raw materials in China
- Chinese government's restriction of domestic market

- Please list some of government's FDI policies changed in 1990s, which bring about the most favourite effect on joint venture's operation:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- Please list some of government's FDI policies changed in 1990s, which bring about the most negative effect on joint venture's operations:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

76 Internal factors

a. In the early stage:

- difficulty caused by culture differences
- different management styles
- difficulty for expatriate managers to communicate with local staff
- difficulty in recruiting good local management and technical staff

- difficulty in controlling product quality
- difficulty in utilising Chinese parent company's existing sales channels
- poor co-operation between Chinese and expatriate management staff
- Chinese employees' low education level
- Chinese workers' poor work efficiency
- high turn over rate of Chinese staff and factory workers
- over expenditure for keeping a good relationships with local government departments, suppliers, and customers

Other: \_\_\_\_\_

b. At present:

- difficulty caused by culture differences
- different management styles
- difficulty for expatriate managers to communicate with local staff
- difficulty in recruiting good local management and technical staff
- difficulty in controlling product quality
- difficulty in utilising Chinese parent company's existing sales channels
- poor co-operation between Chinese and expatriate management staff
- Chinese employees' low education level
- Chinese workers' poor work efficiency
- high turn over rate of Chinese staff and factory workers
- over expenditure for keeping a good relationships with local government departments, suppliers, and customers

Other: \_\_\_\_\_

77 The major differences between Chinese and foreign parties

a. In the early stage:

- different views on expatriate general manager's term, income, benefits
- different views on the number of expatriate staff in the joint venture
- different views on the personnel arrangement of senior Chinese managers
- different views on JV's management style
- different views on JV's structure
- different views on JV's export percentage, and prices
- different views on Chinese employee's salary/wage, and bonus
- different views on Chinese employee's housing, meals, medical treatment, and holiday arrangement
- different views on setting up the Trade Union in the joint venture

b. At present:

- different views on expatriate general manager's term, income, benefits
- different views on the number of expatriate staff in the joint venture
- different views on the personnel arrangement of senior Chinese managers

- different views on JV's management style
- different views on JV's structure
- different views on JV's export percentage, and prices
- different views on Chinese employee's salary/wage, and bonus
- different views on Chinese employee's housing, meals, medical treatment, and holiday arrangement
- different views on setting up the Trade Union in the joint venture

- How often did these differences occur?

\_\_\_\_\_

- How long did these differences exist in the venture?

\_\_\_\_\_

- How did these differences be solved?

\_\_\_\_\_

**Section 9. Joint Venture's Future Perspectives**

78 Chinese party's future perspectives:

- very good
- not optimistic
- hard to say at the moment
- will change partner
- will withdraw the capital

79 Foreign party's future perspectives:

- very good
- not optimistic
- hard to say at the moment
- will change partner
- will withdraw the capital

80 Is there any plan from each party to increase investment in the joint venture?

- Both parties have already increased their investment, the total amount is: \_\_\_\_\_
- There is no such plan from either party
- It is possible, the total amount will be \_\_\_\_\_%

## Appendix IV – Companies Responded the Questionnaire

(August 1998)

Company Names	Set up time	No. of employees	Sector	Ownership			
				Chinese	%	Overseas	%
Liaoen Co. Ltd.	1985.11	183	Manufacturing	State-owned	40	Japan	60
Jinlun Textile	1986.03	823	Manufacturing	State-owned	45	USA	55
Aobake Co. Ltd.	1988.01	350	Manufacturing	-	-	Japan	100
Senxing Industrial	1988.03	350	Manufacturing	-	-	USA	100
Dalikai Co. Ltd.	1988.07	100	Manufacturing	State-owned	65	Hong Kong	35
Yuantian Industrial	1988.08	850	Manufacturing	-	-	Japan	100
North Lianhe	1989.02	500	Manufacturing	State-owned	50	Hong Kong	50
Yuandong Computer	1989.04	67	Services	State-owned	40	Japan	60
Pacific Multilayer Circuit	1989.06	420	Manufacturing	State-owned	65	Hong Kong	35
Linjingmi Casting Co. Ltd.	1989.07	553	Manufacturing	-	-	Japan	100
Futian Garment Co. Ltd.	1989.10	371	Manufacturing	State-owned	85	Japan	15
Dahua Electronics Co. Ltd.	1989.12	230	Manufacturing	State-owned	75	Korea	25
Jingang Garment Co. Ltd.	1990.01	530	Manufacturing	State-owned	75	Hong Kong	25
Sande Electronics Co. Ltd.	1990.02	1700	Manufacturing	State-owned	15	Hong Kong	85
Deli Medical Materials	1990.12	72	Manufacturing	State-owned	75	Hong Kong	25
Tengyan Local Food	1991.02	16	Manufacturing	Private	50	Singapore	50
Okai Leather Co. Ltd.	1991.04	116	Manufacturing	State-owned	46.7	Japan	53.3
Wanshitong Tele. Cables	1991.04	400	Manufacturing	State-owned	70	USA	30
Thermo King Refrigeration	1991.12	104	Manufacturing	State-owned	30	USA	70
North Pacific Cans	1992.01	176	Manufacturing	State-owned	50	Hong Kong	50
Sanye Fashion Co. Ltd.	1992.02	288	Manufacturing	State-owned	65	Japan	35
Chujiang Garment Co. Ltd.	1992.03	610	Manufacturing	-	-	Hong Kong	100
Kaida Wood Manufacture	1992.03	50	Manufacturing	State-owned	50	Hong Kong	50
Datong Garments Co. Ltd.	1992.06	580	Manufacturing	State-owned	51	Hong Kong	49
Zhineng Instruments	1992.06	30	Manufacturing	State-owned	30	Hong Kong	70
Riyu Industrial Co. Ltd.	1992.07	900	Manufacturing	State-owned	79.3	Hong Kong	20.7
Huacheng Villa Co. Ltd.	1992.09	128	Real Estate	State-owned	15	Japan	85
Sanyang Refrigeration	1992.09	392	Manufacturing	State-owned	40	Japan	60
Industrial Land Develop.	1992.10	20	Real Estate	State-owned	20	Japan	80
Zhenpeng Indus. City	1992.10	21	Real Estate	State-owned	50	Taiwan	50
Wutian Kitchen Equipment	1992.12	19	Manufacturing	State-owned	70	Japan	30
Ellison Co. Ltd.	1993.01	320	Manufacturing	State-owned	61	Sweden	39
Huashun Kitchen Equipt.	1993.01	30	Manufacturing	Private	70	Taiwan	30
Taiyangcheng Entertainmet	1993.02	400	Restaurant	State-owned	70	Hong Kong	30
Lishile Automatic System	1993.02	22	Manufacturing	Private	55	Germany	45
Jinxing Plastic Products	1993.03	450	Manufacturing	State-owned	74	Hong Kong	26
Yuanda Building	1993.03	60	Real Estate	State-owned	11	Hong Kong	89
Gelinsike Wood	1993.04	50	Manufacturing	-	-	Japan	100
Jinte Garment	1993.04	380	Manufacturing	State-owned	75	Hong Kong	25
Tianfu Kitchen Equipment	1993.04	80	Manufacturing	State-owned	30	Taiwan	70
Baolu Colour Printing	1993.05	52	Manufacturing	State-owned	56	Taiwan	44
Lanbao Fashionable Dress	1993.05	140	Manufacturing	Private	64.3	Japan	35.7
Jinli Garment Materials	1993.06	60	Manufacturing	State-owned	75	Hong Kong	25

Company Names	Set up time	No. of employees	Sector	Ownership			
				Chinese	%	Overseas	%
Laien System	1993.06	10	Services	Private	75	USA	25
Daguang Printing	1993.07	4	Manufacturing	State-owned	25	Japan	75
Fuhua Electronics	1993.07	5	Manufacturing	State-owned	72	Taiwan	28
Zhenhua Biological	1993.07	12	Manufacturing	Private	51	Japan	49
Changxing Casting	1993.08	100	Manufacturing	State-owned	60	Hong Kong	40
Chenggao Electronic	1993.08	8	Manufacturing	Private	57	Japan	43
Tianan Plastic Products	1993.08	58	Manufacturing	State-owned	75	Hong Kong	25
Changming Shore	1993.09	1600	Manufacturing	-	-	Korea	100
Haohua Kitchen Equipmt.	1993.09	56	Manufacturing	State-owned	70	Hong Kong	30
Salabuole Restaurant	1993.09	60	Restaurant	State-owned	40	Korea	60
Hongchuan Wood	1993.11	60	Manufacturing	-	-	Hong Kong	100
Ailian Garment	1993.12	235	Manufacturing	State-owned	75	Japan	25
Huayang Garment	1993.12	304	Manufacturing	Private	75	Hong Kong	25
Datong Machinery	1994.01	53	Manufacturing	State-owned	47	Japan	53
Hengbin Food Products	1994.01	180	Manufacturing	State-owned	50.5	Japan	49.5
Sanyang Machinery	1994.01	145	Manufacturing	Private	56	Japan	44
Youai Family Products	1994.04	27	Manufacturing	State-owned	25	Japan	75
Wandehou Marine	1994.05	30	Manufacturing	State-owned	50	Singapore	50
Yangyu Plastic Products	1994.06	50	Manufacturing	State-owned	0	Japan	100
Weijing Fire-fighting	1994.06	268	Manufacturing	State-owned	65	Hong Kong	35
Yinghua Food	1994.07	10	Manufacturing	Private	50	Japan	50
Jianchang Foot Wear	1994.08	750	Manufacturing	State-owned	16.7	Korea	83.3
Sanan Garment	1994.08	200	Manufacturing	-	-	Korea	100
Jinzhuhan Garment	1994.09	350	Manufacturing	-	-	Korea	100
Sanyang Compressor	1994.09	150	Manufacturing	State-owned	40	Japan	60
Lingfa Food Products	1994.11	109	Manufacturing	Private	75	Japan	25
Minghua Electronics	1994.11	92	Manufacturing	State-owned	30	Japan	70
Far East Tools	1994.12	28	Manufacturing	State-owned	70	USA	30
Shangari-la Hotel	1994.12	803	Hotel/Restaurant	State-owned	10	Hong Kong	90
Huaxin Sea Food Products	1995.01	120	Manufacturing	State-owned	10	Taiwan	90
Tianlong Electronics	1995.01	6	Manufacturing	Private	50	Hong Kong	50
Mycal 1st Building	1995.02	100	Services	-	-	Japan	100
Okai Consultancy	1995.04	10	Consultancy	State-owned	12	Japan	88
Baijing Garment Co. Ltd.	1995.05	290	Manufacturing	-	-	Korea	100
Polyclad Co. Ltd.	1995.06	220	Manufacturing	State-owned	30	Hong Kong	70
Chigong Printing	1995.06	58	Manufacturing	State-owned	7	Japan	93
Dexin Wood Products	1995.06	270	Manufacturing	State-owned	50	Japan	50
Liyanmaluha Food	1995.06	76	Manufacturing	-	-	Japan	100
Junhe Lift Co. Ltd.	1995.07	30	Manufacturing	Private	60	Hong Kong	40
Linde Jinzhong	1995.08	122	Manufacturing	State-owned	44	Germany	56
Dayou Electronic	1995.08	15	Manufacturing	State-owned	20	Korea	80
Zhongying Precise Casting	1995.09	95	Manufacturing	Private	55	Japan	45
Washan Food Products	1995.09	150	Manufacturing	State-owned	50	Japan	50
Yuhai Lighting Products	1995.10	45	Manufacturing	State-owned	50	Japan	50
International Fashion City	1995.11	50	Real Estate	State-owned	75	Hong Kong	25
Lejinchandan Co. Ltd.	1995.11	295	Manufacturing	State-owned	30	Korea	70



Company Names	Set up time	No. of employees	Sector	Ownership			
				Chinese	%	Overseas	%
Pujin Steel Sheet Co. Ltd.	1995.11	240	Manufacturing	State-owned	30	Korea	70
Buohai Riping Machine	1996.02	420	Manufacturing	State-owned	51	Japan	49
Longtai Wood Products	1996.03	250	Manufacturing	State-owned	73	Japan	27
Yigousou Restaurant	1996.03	15	Restaurant	-	-	Japan	100
Lushan Health Centre	1996.05	130	Services	State-owned	49	Japan	51
Huamei Interior Design	1996.06	6	Manufacturing	Private	50	Hong Kong	50
Jinhe Wood Products	1996.09	140	Manufacturing	-	-	Hong Kong	100
Kaiyue Beauty/Health	1996.11	30	Services	State-owned	40	Taiwan	60
Meilian Advanced Tech.	1996.11	13	Services	Private	55	USA	45
Xiaoyekou Food	1996.12	180	Manufacturing	State-owned	15	Japan	85
Maoda Fashion	1997.04	250	Manufacturing	Private	70	Japan	30
Haihua Wood Products	1997.08	60	Manufacturing	State-owned	66	USA	34
Zhuyang Paper Products	1997.12	78	Manufacturing	Private	54	Japan	46
Jinhu Computer	1998.04	8	Services	Private	40	Japan	60

Note: the number of employees was recorded in August 1998.

## Appendix V – Details of Respondents

Company	Set up time	Job Title	Time joining the JV	Nationality
Dalian Liaoen Co. Ltd.	1985.11	Deputy G. manager	1994.04	Chinese
Dalian Jinlun Textile Co. Ltd.	1986.03	Office manager	1987.06	Chinese
Dalian Aobake Co. Ltd.	1988.01	Accountant	1988.01	Chinese
Dalian Senxing Industrial Co. Ltd.	1988.03	Office manager	1990.07	Chinese
Dalian Dalikai Co. Ltd.	1988.07	Assistant G. manager	1989.05	Chinese
Dalian Yuantian Industrial Co. Ltd.	1988.08	Assistant G. manager	1989.08	Chinese
Dalian North Lianhe Toy Co. Ltd.	1989.02	Controller	1989.02	Chinese
Dalian Yuandong Computer System Co. Ltd.	1989.04	Deputy G. manager	1990.03	Chinese
Dalian Pacific Multilayer Circuit Board Co. Ltd.	1989.06	Accountant	1996.01	Chinese
Dalian Linjingmi Casting Co. Ltd.	1989.07	Controller	1989.11	Chinese
Dalian Futian Garment Co. Ltd.	1989.10	H. R. manager	1993.01	Chinese
Dalian Dahua Electronics Co. Ltd.	1989.12	Office manager	1992.06	Chinese
Dalian Jingang Garment Co. Ltd.	1990.01	Controller	1990.01	Chinese
Dalian Sande Electronics Co. Ltd.	1990.02	Sales manager	1992.01	Chinese
Dalian Deli Medical Materials Co. Ltd.	1990.12	General manager	1990.12	Chinese
Dalian Tengyan Local Food Products Co. Ltd.	1991.01	Accountant	1991.01	Chinese
Dalian Okai Leather Co. Ltd.	1991.04	General manager	1991.06	Chinese
Dalian Wanshitong Tele. Cables Co. Ltd.	1991.04	Deputy G. manager	1992.04	Chinese
Dalian Thermo King Transport Refrigeration Ltd	1991.12	H. R. manager	1994.01	Chinese
Dalian North Pacific Cans Co. Ltd.	1992.01	Deputy G. manager	1992.01	Chinese
Dalian Sanye Fashion Co. Ltd.	1992.02	Office manager	1992.12	Chinese
Dalian Chujiang Garment Co. Ltd.	1992.03	Controller	1992.09	Chinese
Dalian Kaida Wood Manufacture Co. Ltd.	1992.03	Office manager	1992.03	Chinese
Dalian Datong Garments Co. Ltd.	1992.06	Accountant	1992.06	Chinese
Dalian Zhineng Instruments and Meters Co. Ltd.	1992.06	Sales manager	1992.06	Chinese
Dalian Riyu Industrial Co. Ltd.	1992.07	Controller	1992.07	Chinese
Dalian Huaicheng Villa Co. Ltd.	1992.09	Deputy G. manager	1992.09	Chinese
Dalian Sanyang Refrigeration Co. Ltd.	1992.09	Secretary	1997.06	Chinese
Dalian Industrial Land Development Co. Ltd.	1992.10	Deputy G. manager	1992.10	Chinese
Dalian Zhenpeng Indus. City Develop. Co. Ltd.	1992.10	General manager	1992.10	Chinese
Dalian Wutian Kitchen Equipment Co. Ltd.	1992.12	Department manager	1995.01	Chinese
Dalian Ellison Co. Ltd.	1993.01	Controller	1993.01	Chinese
Dalian Huashun Kitchen Equipment Co. Ltd.	1993.01	Controller	1993.01	Chinese
Dalian Taiyangcheng Entertainment Co. Ltd.	1993.02	Office manager	1993.02	Chinese
Dalian Lishile Automatic System Co. Ltd.	1993.02	Controller	1993.02	Chinese
Dalian Jinxing Plastic Products Co. Ltd.	1993.03	Controller	1994.08	Chinese
Dalian Yuanda Building Co. Ltd.	1993.03	General manager	1993.03	Chinese
Dalian Gelinesike Wood Co. Ltd.	1993.04	Accountant	1993.07	Chinese
Dalian Jinte Garment Co. Ltd.	1993.04	Controller	1994.04	Chinese
Dalian Tianfu Kitchen Equipment Co. Ltd.	1993.04	Controller	1993.04	Chinese
Dalian Baolu Colour Printing Co. Ltd.	1993.05	Office manager	1993.05	Chinese
Dalian Lanbao Fashionable Dress Co. Ltd.	1993.05	Controller	1993.05	Chinese
Dalian Jinli Garment Materials Co. Ltd.	1993.06	Controller	1994.07	Chinese
Dalian Laien System Co. Ltd.	1993.06	General manager	1993.06	Chinese

Company	Set up time	Job Title	Time joining the JV	Nationality
Dalian Daguang Printing Co. Ltd.	1993.07	Accountant	1995.01	Chinese
Dalian Fuhua Electronics Co. Ltd.	1993.07	Controller	1995.08	Chinese
Dalian Zhenhua Biological Engineering Co. Ltd.	1993.07	Deputy G. manager	1993.07	Chinese
Dalian Changxing Casting Industrial Co. Ltd.	1993.08	Controller	1993.08	Chinese
Dalian Chenggao Electronic Co. Ltd.	1993.08	Deputy G. manager	1993.08	Chinese
Dalian Tianan Plastic Products Co. Ltd.	1993.08	General manager	1993.08	Chinese
DalianChangming Shore Manufacturing Co. Ltd.	1993.09	Controller	1993.11	Chinese
Dalian Haohua Kitchen Equipment Co. Ltd.	1993.09	General manager	1994.01	Chinese
Dalian Salabuole Restaurant Co. Ltd.	1993.09	Controller	1993.09	Chinese
Dalian Hongchuan Wood Co. Ltd.	1993.11	Accountant	1993.11	Chinese
Dalian Ailian Garment Co. Ltd.	1993.12	Accountant	1998.01	Chinese
Dalian Huayang Garment Co. Ltd.	1993.12	Controller	1994.01	Chinese
Dalian Datong Machinery Products Co. Ltd.	1994.01	General manager	1994.01	Chinese
Dalian Hengbin Food Products Co. Ltd.	1994.01	Controller	1994.01	Chinese
Dalian Sanyang Machinery Co. Ltd.	1994.01	Controller	1994.01	Chinese
Dalian Youai Family Products Co. Ltd.	1994.04	Controller	1994.04	Chinese
Dalian Wandehou Marine Engineering Co. Ltd.	1994.05	Office manager	1993.08	Chinese
Dalian Yangyu Plastic Products Co. Ltd.	1994.06	Controller	1996.07	Chinese
Dalian Weijing Fire-fighting Engineering Co.	1994.06	General manager	1994.06	Chinese
Dalian Yinghua Food Co. Ltd.	1994.07	Office staff	1995.08	Chinese
Dalian Sanan Garment Co. Ltd.	1994.08	Accountant	1994.08	Chinese
Dalian Jianchang Shoe Co. Ltd.	1994.08	Controller	1995.07	Chinese
Dalian Jinzhuhan Garment Co. Ltd.	1994.09	Accountant	1996.01	Chinese
Dalian Sanyang Compressor Co. Ltd.	1994.09	Office manager	1994.09	Chinese
Dalian Lingfa Food Products Co. Ltd.	1994.11	General manager	1994.11	Chinese
Dalian Minghua Electronics Co. Ltd.	1994.11	Office manager	1995.01	Chinese
Dalian Far East Tools Co. Ltd.	1994.12	Controller	1994.12	Chinese
Dalian Sangari-la Hotel Co. Ltd.	1994.12	Public relation manager	1997.05	Chinese
Dalian Huaxin Sea Food Products Co. Ltd.	1995.01	Accountant	1996.04	Chinese
Dalian Tianlong Electronics Co. Ltd.	1995.01	Controller	1995.07	Chinese
Dalian Mycal Ist Building Co. Ltd.	1995.04	Controller	1996.02	Chinese
Dalian Okai Consultancy Co. Ltd.	1995.04	Department manager	1997.08	Chinese
Dalian Baijing Garment Co. Ltd.	1995.05	Accountant	1995.05	Chinese
Dalian Baolide Circuit Board Co. Ltd.	1995.06	Deputy G. manager	1997.02	Chinese
Dalian Chigong Printing Co. Ltd.	1995.06	Department manager	1995.06	Chinese
Dalian Dexin Wood Products Co. Ltd.	1995.06	Accountant	1995.06	Chinese
Dalian Liyanmaluha Food Co. Ltd.	1995.06	Office staff	1995.06	Chinese
Dalian Junhe Lift Co. Ltd.	1995.07	Sales manager	1995.07	Chinese
Dalian Linde Jinzhong Co. Ltd.	1995.08	Controller	1995.08	Chinese
Dalian Dayou Electronic Co. Ltd.	1995.08	Controller	1996.05	Chinese
Dalian Zhongying Precise Casting Co. Ltd.	1995.09	Office staff	1998.01	Chinese
Dalian Washan Food Products Co. Ltd.	1995.09	Accountant	1995.09	Chinese
Dalian Yuhai Lighting Products Co. Ltd.	1995.10	Controller	1996.06	Chinese
Dalian International Fashion City Co. Ltd.	1995.11	Administrator	1995.11	Chinese
Dalian Lejinchandan Co. Ltd.	1995.11	Department manager	1995.05	Chinese
Dalian Pujin Steel Sheet Co. Ltd.	1995.11	Deputy G. manager	1995.11	Chinese
Dalian Buohai Riping Machine Tools Co. Ltd.	1996.02	Chief economist	1996.02	Chinese

Company	Set up time	Job Title	Time joining the JV	Nationality
Dalian Longtai Wood Products Co. Ltd.	1996.03	Controller	1996.07	Chinese
Dalian Yigousou Restaurant Co. Ltd.	1996.03	General manager	1996.08	Japanese
Dalian Lushan Health Centre Co. Ltd.	1996.05	Deputy G. manager	1997.04	Chinese
Dalian Huamei Interior Design Co. Ltd.	1996.06	Office manager	1996.06	Chinese
Dalian Jinhe Wood Products Co. Ltd.	1996.09	Accountant	1997.03	Chinese
Dalian Kaiyue Beauty/Health Co. Ltd.	1996.11	Assist. general manager	1997.04	Chinese
Dalian Meilian Advanced Technology Co. Ltd.	1996.11	Statistician	1996.11	Chinese
Dalian Xiaoyekou Food Co. Ltd.	1996.12	Controller	1996.12	Chinese
Dalian Maoda Fashion Co. Ltd.	1997.04	Accountant	1997.07	Chinese
Dalian Haihua Wood Products Co. Ltd.	1997.08	Accountant	1997.08	Chinese
Dalian Zhuyang Paper Products Co. Ltd.	1997.12	Office manager	1997.12	Chinese
Dalian Jinhua Computer Co. Ltd.	1998.04	Department manager	1998.04	Chinese

## Appendix VI – Joint Ventures with Ownership Shares Transferred

No.1	Ownership in early stage				Ownership at present			
Company	1988.01				1996.10			
Aobake	Chinese party	50	Japanese party	50	Chinese party	0	Japanese party	100

No.2	Ownership in early stage				Ownership at present			
Company	1988.03				1997.03			
Senxing	Chinese party	30	USA	70	Chinese party	0	USA	100

No.3	Ownership in early stage				Ownership at present			
Company	1988.07				1997.05			
Linjingmi Casting	Chinese party	40	Japanese party	60	Chinese party	0	Japanese	100

No.4	Ownership in early stage				Ownership at present			
Company	1988.08				1997.08			
Yuantian	Chinese party	60	Japanese party	40	Chinese party	0	Japanese party	100

No.5	Ownership in early stage				Ownership at present			
Company	1989.06				1997.03			
Pacific PC Board	Chinese party	55	H.K. party	45	Chinese party	65	H. K. party	35

No.6	Ownership in early stage				Ownership at present			
Company	1989.07				1996.10			
Lin Casting	Chinese party	40	Japanese	60	Chinese party	0	Japanese party	100

No.7	Ownership in early stage				Ownership at present			
Company	1989.10				1996.10			
Futian Garment	Chinese party	50	Japanese party	50	Chinese party	85	Japanese party	15

No.8	Ownership in early stage				Ownership at present			
Company	1990.02				1997.05			
Sande Electronics	Chinese party	65	H.K. party	35	Chinese party	15	H.K. party	85

No.9	Ownership in early stage				Ownership at present			
Company	1991.04				1997.03			
Okai Leather	Chinese party	47.62	Japanese party	52.38	Chinese party	46.72	Japanese party	53.38

No.10	Ownership in early stage				Ownership at present			
Company	1992.02				1997.08			
Sanye Fashion	Chinese party	35	Japanese party	65	Chinese party	65	Japanese party	35

No.11	Ownership in early stage				Ownership at present			
Company	1992.03				1997.06			
Chujiang Garment	Chinese party	51	H.K. party	49	Chinese party	0	H.K. party	100

No.12	Ownership in early stage				Ownership at present			
Company	1993.04				1997.09			
Gelinsike Wood	Chinese party	40	Japanese party	60	Chinese party	0	Japanese party	100

No.13	Ownership in early stage				Ownership at present			
Company	1993.08				1998.03			
Changxing Casting	Chinese party	60	Hong Kong	40	Chinese party	20	Japanese party	80

No.14	Ownership in early stage				Ownership at present			
Company	1993.08				1998.05			
Chenggao	Chinese party	60	Japanese party	40	Chinese party	57	Japanese party	43

No.15	Ownership in early stage				Ownership at present			
Company	1993.09				1998.07			
Changming Shoes	Chinese party	50	Korean party	50	Chinese party	0	Korean party	100

No.16	Ownership in early stage				Ownership at present			
Company	1993.11				1998.05			
Hongchuan	Chinese party	50	H.K. party	50	Chinese party	0	H.K. party	100

No.17	Ownership in early stage				Ownership at present			
Company	1994.01				1998.07			
Hengbi Food	Chinese party	49	Japanese party	51	Chinese party	50.5	Japanese party	49.5

No.18	Ownership in early stage				Ownership at present			
Company	1994.01				1997.10			
Sanyang Machinery	Chinese party	75	Japanese party	25	Chinese party	56	Japanese party	44

No.19	Ownership in early stage				Ownership at present			
Company	1994.05				1997.09			
Wandehou	Chinese party	75	Singapore	25	Chinese party	50	Singapore	50

No.20	Ownership in early stage				Ownership at present			
Company	1994.06				1997.10			
Yangyu Plastic	Chinese party	50	Japanese	50	Chinese party	0	Japanese party	100

No.21	Ownership in early stage				Ownership at present			
Company	1994.07				1998.03			
Yinghua Food	Chinese party	43	Japanese party	57	Chinese party	50	Japanese party	50

No.22	Ownership in early stage				Ownership at present			
Company	1994.08				1997.09			
Sanan Garment	Chinese party	30	Korean party	70	Chinese party	0	Korean party	100

No.23	Ownership in early stage				Ownership at present			
Company	1994.08				1998.04			
Jianchange Shoes	Chinese party	25	Korean party	75	Chinese party	16.7	Korean party	83.3

No.24	Ownership in early stage				Ownership at present			
Company	1994.09				1997.08			
Jinzhuhan Garment	Chinese party	50	Korean party	50	Chinese party	0	Korean party	100

No.25	Ownership in early stage				Ownership at present			
Company	1995.01				1997.10			
Huaxin Sea Food	Chinese party	90	Taiwan party	10	Chinese party	10	Taiwan party	90

No.26	Ownership in early stage				Ownership at present			
Company	1995.02				1998.07			
Mycal Ist	Chinese party	50	Japanese	50	Chinese party	0	Japanese party	100

No.27	Ownership in early stage				Ownership at present			
Company	1995.05				1998.05			
Baijing Garment	Chinese party	50	Korean party	50	Chinese party	0	Korean party	100

No.28	Ownership in early stage				Ownership at present			
Company	1995.06				1998.03			
Baolide PC Board	Chinese party	35	H.K. party	65	Chinese party	30	H.K. party	70

No.29	Ownership in early stage				Ownership at present			
Company	1995.06				1998.05			
Chigong Printing	Chinese party	49	Japanese party	51	Chinese party	7	Japanese party	93

No.30	Ownership in early stage				Ownership at present			
Company	1995.06				1997.08			
Liyamaluha	Chinese party	50	Japanese	50	Chinese party	0	Japanese party	100

No.31	Ownership in early stage				Ownership at present			
Company	1996.09				1998.03			
Jinhe Wood	Chinese party	50	H.K. party	50	Chinese party	0	H.K. party	100

No.32	Ownership in early stage				Ownership at present			
Company	1996.11				1998.07			
Kaiyue	Chinese party	60	Taiwan party	40	Chinese party	40	Taiwan party	60

No.33	Ownership in early stage				Ownership at present			
Company	1996.12				1997.11			
Xiaoyekou Food	Chinese party	35	Japanese party	65	Chinese party	15	Japanese party	85

No.34	Ownership in early stage				Ownership at present			
Company	1998.04				1998.07			
Jinhu Computer	Chinese party	60	Japanese party	40	Chinese party	40	Japanese party	60

