

**RESEARCH ON JOINT VENTURES IN CHINA:
PROGRESS AND PROGNOSIS**

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ABSTRACT

Previous published studies on international joint ventures (JVs) in China are reviewed and assessed by summarising important research patterns. A model of management of international JVs in China is developed which emphasises the central theme of cross-cultural management. Dimensions in research on international JVs in China and directions for future research are also discussed.

INTRODUCTION

Since the People's Republic of China opened up its economy to foreign investment in 1979, Sino-foreign JVs have become the most popular form for the Chinese government to attract foreign capital and for foreign firms to enter the Chinese market. By the end of 1993, there are some 167,500 Chinese-foreign JVs, cooperative enterprises and wholly foreign-owned enterprises (Peoples Daily, 2/March/1994), with the total contracted investment of 233 billion US dollars.

Although the international JV has become a significant phenomenon in the transnational business in China and provides a vast promising arena for academic research, it has been seriously under-researched, with many areas remaining virtually untouched. The purpose of this paper is to review the progress made in the literature on international JVs in China, and identify important issues and research directions from a cross-cultural management perspective.

REVIEW

The main published studies in the area of international JVs in China are briefly reviewed and summarised in Table 1. These studies have as their common theme creating or managing JVs in China. They do, however, differ in terms of the purpose of the research, the research methods employed, and in particular, in their angles to look at the subject. The themes of prior studies varied greatly from negotiation (Davison, 1987; Hakam and Chan, 1990; Shapiro, et al., 1991), to management of JVs (Baird, et al., 1990; Child, et al., 1989; Henley and Nyaw, 1990; Li, et al., 1990 and Shenkar, 1990), to performance (Mayer, et al., 1990 and Stelzer, et al., 1992) and to roles of trade union in JVs (Nyaw, 1990). Some major studies are discussed in the following paragraphs.

(Insert Table 1 about here)

In his case study of Beijing Jeep Corporation, a well-known Sino-American JV, Aiello (1991) proposed a "platform theory" to explain problems encountered by international JVs in China. The main argument of the theory is that *the Chinese JV company does not operate as a typical Western business entity. It does not have a unique corporate strategy nor is it faced with real fiscal constraints. Rather, the JV is a Chinese state enterprise with foreign senior management and imported technology. JV is a temporary platform built by two partners. This is true to most international JVs with state enterprises as Chinese partners. However, the two points he made about the platform seem to be in conflict: a) the maximization of dividend income from the venture is not a top priority for either party, and b) Short- to medium-term interests prevail.* The implication of platform theory is that since JVs in China are substantially different from Western JVs, managing these JVs needs a special approach.

Baird, Lyles and Wharton (1990) compared differences in attitudes between American and Chinese managers and found significant differences in terms of organisational form, work, employment and reward systems. But the significance of findings was marred by the fact that only two of thirty-seven American respondents had direct

experience with JVs. It could be more convincing if comparison had been made between foreign and Chinese managers working in the same JVs.

A recent study by Beamish (1993) was unique in that it reviews twelve studies to find out the characteristics of JVs in China and then contrasts them with those in other developing countries. It was hypothesised that each of the twelve characteristics of JVs in market-economy developing countries will be similar to the characteristics of JVs in planned economy developing countries, while there exists variability in the characteristics of JVs between developed and developing countries. The finding was that in only seven of 12 cases was there support for the above hypothesis. JVs in China were found out unique in five aspects:

- High frequency of association with government partners,
- Most of the JV investment coming from Overseas Chinese,
- Low implementation of the intended JVs (less than half),
- The predetermined duration of JVs,
- Currently no correlation between stability and performance.

Beamish concluded that it is better to adopt a contingency approach to JVs while not to assume that JVs within developing countries have similar characteristics.

A survey of 182 Chinese managers by Brunner, Koh and Lou (1992) was perhaps the first effort to look at problems of JVs from the Chinese perspective. They designed the questionnaire using 57 statements which were based on perceptions of American businessmen. They found that most Chinese respondents concurred that American businessmen are not sufficiently familiar with Chinese methods of conducting business and are not skilled in the relationships game. This type of survey, like the one by Baird, et al. (1990), could provide more insights if it is conducted to both partners of the same JVs and their responses are compared with.

Child and Li (1990), and Li et al. (1990) made an initial attempt in comparing management styles among different JVs. Management style was investigated in terms of four indexes: decision making, formalisation, communication and codification, personnel policy and training. They also examined the influence on management style

by other factors such as: industry, origin of investors, size, time period, etc.. Similarly, Child and Markoczy (1993) drew parallel between Chinese and Hungarian experience. They noted that national culture has been the favoured explanation both for the values, beliefs and behaviour of managers in different countries, and for the difficulties encountered in the management of collaborative ventures. However, the limitation in these studies was the small sample size used which might prevent them from leading to general conclusions.

The study by Pan, Vanhonacker and Pitts (1993) is perhaps the most comprehensive one so far. An empirical data base was compiled from the interviews which covered 53 questions in eight broad areas of JV operations: management control, human resources management, production, marketing, financing, technology transfer, logistics / infrastructure and legal system. In addition, other 65 questions on the perceptions of foreign managers were also asked in interviews. A larger sample, compared with most previous studies, consisted of 73 JVs in five locations and with foreign partners from 11 countries or regions. The focus of the study was to explore the operational difficulties that could trigger a failure or potential close-down in JVs.

Analysing the problems faced by international JVs in China, Shenkar (1990) suggested that the potential problems of JVs can be predicted on the basis of these two factors, namely environmental diversity (the differences between the cultural, political, economic and legal systems of the parent firms), and structural complexity (the complexity of the enterprise's organisation). He further asserted that *many of the problems are a product of the structural complexity of JVs rather than merely of the cultural and political differences between the foreign and Chinese parent environment*. However, it is not clear: a) what exactly structural complexity means; b) whether it is similar to what Datta (1988:p81) refers to *administrative impediments*; c) what is the relationship between structural complexity and environmental diversity. It can be argued that at least one factor in the environment diversity, cultural difference, will have an impact on structural complexity.

In summary, the studies discussed above and displayed in Table 1 have the following features: Firstly, the majority of studies were based on cases of American companies. With few exceptions (Child, et al.,1990; Beamish, 1993 and Pan, et al., 1993) there was little research on non-US JVs in China, and almost none on the JVs formed by overseas Chinese investors from Hong Kong and Taiwan, even though these ventures accounted for nearly three quarters of total number of JVs formed. Similarly absent was the study on the JVs formed with Japanese partners despite of the fact that Japan has the largest number of JVs in China among developed countries and some Sino-Japanese JVs have remained prominent profiles on the Chinese media.

Secondly, there was not a single longitudinal study. This may be partly due to the short history of international JVs in China itself. Some studies were based on either case study of a single firm or personal experience or anecdotal evidence. Still, as Beamish (1993) noted that many of these studies has a sample that is very small and collected before 1989. Any conclusions drawn from such study have to be treated with caution. In other studies, theoretical framework had not been fully developed and research approach not properly explained.

Thirdly, most of the studies were descriptive and normative rather than analytical and predictive. A common feature found among the existing studies was that great attention was given to issues of "what" and "should". For example, there was detailed elucidation of the various aspects of Chinese environment and government policies, and of what foreign or Chinese companies should do in certain circumstances. However, little attention was devoted to the issues of "why" and "how". For example, why Japanese firms seemed to encounter less difficulties than their western counterparts (Ireland, 1991), and how changes in the Chinese government polices might affect JVs, etc..

Finally, there were considerable number of studies on JVs by Chinese authors written in Chinese, most being scattered in different sources with only one formally published

work (Li, et al., 1990) and one published for internal reference (CAEFI,1991). However, the majority of Chinese studies were either propaganda or promotion rather than academic research in nature, and written in a totally different framework with little quantitative analysis. This makes it almost impossible to draw any meaningful comparison with western studies.

OBSERVATIONS

One: great changes have happened and are still unfolding in the Chinese environment. Since 1979, foreign direct investment (FDI) in China has been going through the following four phases (for details of first three phases, see Pearson, 1991; Baumgarten and Rivard, 1991; Pan, et al., 1993):

- | | | |
|---|-----------------|--------------------|
| - | 1979 -1984 | Foundation Period |
| - | 1985 -May, 1989 | Legislation Period |
| - | June 1989 -1991 | Temporary Setback |
| - | 1992 - | New surge Period |

The greatest change during the fourth phase was that China adopted "Socialist Market Economy" in October 1992, which was followed by a record increase in FDI in 1993. The number of approved projects in 1993 was equivalent to the total sum of past 13 years between 1979 to 1992 (*People's Daily*, 2/3/1994). Generally speaking, legal and policy environment for international JVs has been well improved through the past fifteen years with the continuing addition of new regulations and cutting off bureaucratic redtapes. Infrastructure problems have been considerably eased. Some problems confronting foreign firms in the early 80's (Daniels, et al., 1985 and Davison, 1987) may no longer exist in 1994. As Chinese government gradually relinquishes its direct control over the environment in which JVs operate, international JVs in China today can be viewed as "*serious commercial ventures*" (Aiello,1991:p62). However, international JVs are now facing an ever changing environment and many new problems. For example, China introduced the new tax system from January 1, 1994 (Reuters, 1/12/1993) which has the flat single rate for all firms, Chinese and foreign, and actually abolished the preferential tax treatment for international JVs. However, for those foreign-funded companies approved to be set up

before December 31, 1993, any increase in their tax payment will be refunded by the government in the next five years. After that they have to compete on equal terms with domestic companies (*Economic Daily*, 12/5/1994). Under the new tax system, there are four new taxes: value-added tax (VAT), consumption tax, business tax and capital gains tax, which also have serious implications for foreign investors.

Another problem faced by international JVs is labour disputes. *China Daily* (26/11/1993) cited reports by local newspapers that accused foreign-funded enterprises of open violations of the rights of employees. *Beijing Legal Daily* (22/6/1994) reported that there were more than 260 strikes in foreign-funded enterprises in 1993. Recently the government has required that trade unions affiliated with the state-controlled national trade union be set up in all Sino-foreign JVs by the end of 1994 to protect the rights of eight million Chinese employees from unscrupulous or negligent foreign employers (*Peoples Daily*, 27/6/1994). Research on JVs should keep up with the pace of changes and study these new issues.

Two: the international JV is a complex and difficult enterprise anywhere in the world. Creating and managing a JV in China is different from those in developed countries and different also from those in other developing countries; but is not necessarily more complex and difficult than in other places as some authors believed (Beamish, 1988:p10). There is also a high failure rate of JVs in developed countries (Wright, 1979; Killing, 1982). It is interesting to notice that Hong Kong partners were reported to have far less problems than American and European partners who always complained about external environment and Chinese partners (Li, et al., 1990:p127). This may be explained partly in terms of cross-cultural understanding and communication. This will be further discussed in later section.

Three: although previous studies on JVs in China have made certain progress, the whole body of knowledge is still rather limited. What can be seen so far are only leaves (studies on individual functions or specific aspects), but not a tree (the whole

system of management of a foreign JV), let alone the woods (the distribution and structure of JVs in China). There seems to be a lacking of in-depth, comprehensive and recent investigation of JVs (Pan, et al., 1993). The comprehensive picture of international JVs in China has yet to be drawn. This deficiency may be partly due to the difficulties in finding "hard" data and in conducting field study. Furthermore, if a study merely reports problems which international JVs face in China without further analysing the reasons for such problems or finding possible solutions, it will benefit little to advancing the body of knowledge on international JVs and to JV managers. Obviously, more efforts are needed in empirical research in order to offer useful implication for JV management.

Four: it is quite common for one to perceive and try to interpret a foreign culture through his own domestic filter which may inevitably cause distortion and misunderstanding. Both practitioners and researchers in international JVs are no exception. It is easy to spot the differences and tempting to draw quick conclusion while it needs a great courage to admit that *we know that we do not know* (Adler, et al. 1989:p73). Considering profound differences in political, economic and social systems, culture and history between home and host countries, researchers in cross-cultural management should first question the appropriateness of the research methodology to be used and pay more attention to research design.

SUGGESTED DIRECTIONS

The creation and management of a JV in a foreign environment is a dynamic process in which many factors, not only political, legal and economic, but also social and cultural, will contribute to its success or failure. Consequently, research on international JVs should take a multi-perspective approach. Table 2 lists some major dimensions in research on JVs in China. Areas that need immediate research attention are indicated. This table is by no means exhaustive. What is suggested, however, is that our knowledge of JVs will remain incomplete unless more comprehensive studies which incorporate these major dimensions are undertaken. Methodologically,

comparative study should be widely employed to explore the differences in partner's origin, in industry factors and location factors as well as cultural differences. Only by such comparative study can one identify which problems are inherent in any JV process, which problems are common to all enterprises in China, and which are specific to international JVs in China (Shenkar, 1990; Beamish, 1993).

(Insert Table 2 about here)

Future research is required to focus on the following dimensions:

- (1) To examine the changes in the Chinese environment and its impact on international JVs as the external environment influence both the initial configuration and the viability of a JV (Harrigan,1984).
- (2) To shift research interests from creating to implementing / managing JVs. Further investigations are needed in ownership-control relationship, management modes, functional strategies and performance assessment, in order to reveal the myth around how a JV in China is actually managed and evolved, and what are the key success factors.
- (3) To extend Beamish (1985,1988,1993) work on the characteristics of JVs in developed and developing countries by further comparing JVs in China with JVs in CIS and Eastern Europe (former planned economy) (Nigh and Smith, 1989; Samonis, 1992) , and with JVs in other countries in Southeast Asia (culturally similar countries). As research on JVs in China constitutes only a small portion of the field of JV research in general, it would be useful to put the former into the perspective of the latter.
- (4) To study overseas Chinese investors' approach which is unique in contrast to both the western (American and western European) approach and the Japanese approach. This study is very important for understanding the influence of culture on management practice.
- (5) To question the established Western management thinking and practice, at both philosophical and functional levels, their suitability and applicability in a totally different context: what adaptation is needed, what new skills have to be learned, and what, when and how changes in management can be introduced.

- (6) To study JVs in China from the Chinese perspective (government, partner, employee, etc.) to analyse the differences in perceptions, expectations, understanding and management approaches. This is perhaps the only way that research in the West could find out the true solutions to many problems and difficulties encountered in JVs.

CROSS-CULTURAL MANAGEMENT

Culture has a profound impact on international JVs. Many of problems and obstacles in international JVs have their roots in the cross-cultural communication and understanding. In his study of US and Canadian JVs in Japan, Wright (1979:p26) pointed out that *the most critical problems stem from subtle but fundamental differences between the Japanese and Western cultures, which in turn are reflected in differences in management styles and in approaches to specific issues*. This is also true to international JVs in China. As Pye (1982) argued that *"Unquestionably the largest and possibly the most intractably category of problems in Sino-American business negotiations can be traced to cultural differences between the two countries"*. Cultural factor, though it is not the dominant or the only force which influences an international JV, is certainly one of the most important and least understood. It is particularly important in implementing and managing an international JV. Some studies of JVs in developed countries have already addressed the issue (for example, Nahavandi and Malekzadeh, 1988; Olie, 1990; Lichtenberger and Naulleau, 1993), but research on JVs in China has yet to pay attention to the theme.

Figure 1 presents an analytical model of management of international JVs in China. Compared with Harrigan's domestic JV model (1985:p50) and Datta's framework (1988:p81), this model emphasises the unique key aspect in an international JV: cross-cultural communication and understanding. Culture here is defined at five different levels: East and West, national, business, organisational and individual; and as containing both visible and invisible components (Aviel, 1990). It can be argued that the it is the existence of cultural barriers (at different levels) that makes creating and

managing an international JV "more" complex and difficult than a domestic venture. There is often an inherent gap, or "basic cultural conflict" in Wright's (1979) term, between the perceptions, expectations and objectives held by the partners who form the JV. This gap may cause potential conflicts early at the negotiation stage and through the whole life of the venture. The cultural differences in organisation structure and management style further complicate problems in managing a JV and even threat to its survival. To break these cultural barriers requires both partners in a JV:

- To be committed for JV success,
- To have ability to adapt, to learn and to cooperate,
- To build up effective communication channels,
- To enhance mutual understanding.

The key to a JV's ultimate success is to find the right management approach which is based on good communication and mutual understanding, and maintains a right balance between prescribed western management techniques and sensitivity to the Chinese culture. Ireland (1991) provided some initial evidences. More research is required to explore this theme in depth.

(Insert Figure 1 about here)

Ideally, research on international JVs in China should itself take the form of joint venture, i.e. research collaboration by foreign and Chinese researchers. The main advantage of such joint research is that it could study from both western and Chinese perspectives, and consequently reduce, if not eliminate, the cultural bias held by one party. The other merit is that participation of Chinese partner could facilitate data collection and field study.

CONCLUSION

International JVs in China provide a broad and exciting area for future research. One of the central themes should be cross-cultural management which requires a multi-dimension and comparative approach. Research on cross-cultural communication process, transferability and effectiveness of western management knowhow, and key success factors in international JV management will not only contribute to the knowledge of JV in general, but also benefit practitioners on both parts of ventures.

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Table 1 Studies on Joint Ventures in China

STUDY	FOREIGN PARTNER IN JVs	RESEARCH METHOD	SAMPLE SIZE	THEME
Aiello (1991)	USA	Case study	One firm	Platform theory and reality in China
Au and Enderwick (1994)	New Zealand	Questionnaire survey	13 JVs	Small firms' perception on JV investment
Baird, et al (1990)	USA	Questionnaire survey	67 Chinese and American managers	Attitudinal differences in JV management
Baumgarten and Rivard (1991)	USA	Review		Evolution of conditions for JV
Beamish and Wang (1989)	Various	Desk data	840 JVs	Descriptive statistics
Beamish (1993)	Various	Personal interview	22 firms	Comparing characteristics of JVs
Bruijn and Jia (1993)	Various	Case study	4 cases	Product selection strategy
Brunner, et al (1992)	USA	Questionnaire survey	182 Chinese businessmen	Chinese perception of issues
Campbell (1989)	Various	Interview	30 JVs, and EJV Database (1050 JVs)	Strategies for JVs
Casson and Zheng (1992)	Various	Questionnaire survey plus desk data	236 firms, Database of 2136 JVs	Testing theory of joint ventures
Child and Markoczy (1993)	Various	Comparative study	30 Sino-foreign and five Hungarian-foreign JVs	Host country managerial behaviour and learning
Child, et al (1990) (in Chinese)	Various	Interview	38 foreign and 41 Chinese managers	Management: control, decision making and culture
Daniels, et al (1985)	USA	Interview	11 firms	Investment motivation and management of risk
Davidson (1987)	USA	Questionnaire survey	47 firms	Negotiation and management
Dutta and Merva (1990)	USA	Survey	139 JVs	Key propositions for economic evaluation
Glaiser and Wang (1993)	UK	Questionnaire survey	41 firms	Motivation and partner selection
Goldenberg (1988)	USA and UK	Case study		Managing JVs in China and Japan
Hakam and Chan (1990)	Singapore	Case study	One firm	Key factors in negotiation process

Table 1 *continued*

Henley and Nyaw (1990)		Questionnaire survey	34 JVs in Shenzhen	Management system and organisation
Hendryx (1986)	USA	Case study	One JV	Technology transfer in JVs
Hu, et al (1992)	USA	Event-time methodology	42 JVs formed by 37 US firms	Impact of JV on stockholders' wealth
Knowles, et al (1990)		Review		Chinese perspective on JVs
Li, et al (1989) (in Chinese)	Various	Survey	30 JVs	Management of JVs: structure, style and adaptation
Mayer, et al (1990)	Various	Case study	Six JVs in Tianjin	Performance in JVs
Newman (1992)	USA	Case study	One Chinese firm	Stages in starting a viable JV
Nyaw (1990)		Questionnaire survey	18 union cadres	Roles of trade union in JVs
O'Reilly, (1988)	USA	Case study	One firm	A CEO's perspective
Pan, Vanhonacker and Pitts (1993)	11 countries or regions	Personal interviews	73 JVs	Operations and potential and closing-down
Pearson (1991)	USA	Interview	28 JVs	Control FDI under socialism
Pomfret (1989, 1991)		Survey		JVs in Jiangsu (1989) Characteristics of JVs and evaluation
Ruggles (1983)	USA			Environment for JVs
Shapiro, et al (1991)	USA	Case study	One JV	Chinese environment and negotiation
Shenkar (1990)	US, UK and HK	Case study	Three JVs	Major management problems
Stelzer, et al (1992)	USA	Questionnaire survey	306 US senior executives	JV performance in terms of location
Teagarden, et al (1991)	USA	Theoretical		Sino-foreign business alliance typology
Wagner (1990)		Review		Influences on JV negotiations

Table 2 Dimensions in Research on Joint Ventures in China

LEVEL OF STUDY

- Macro: public policy, legal systems, FDI theory
- Micro: strategies, creating and managing, organisation

PERSPECTIVE

- Foreign: parent /child, expatriate executive, government
- *-Chinese: parent/ child, Chinese managers, employees, government

ENVIRONMENTAL ANALYSIS

- Impact of "Socialist Market Economy", overall economic deregulation,
- Impact of new tax systems, compete with local firms on equal terms, China rejoins GATT
- Central and provincial relations, regional and industrial factors

TYPES OF JV

- Size: large ventures formed between MNCs and state-owned enterprises
 - *small export-led ventures
- Industry: manufacturing, service, tourism, labour / capital intensive, high /low technology
- Activities involved: production and/or sales only, no R&D, full operation unit
- *-Origin of Foreign Partner: overseas Chinese, Taiwanese, Japanese, USA, Western Europe, multi-partners, pseudo JVs^a
- Location: SEZs, big central cities, trade & development zones, inland provinces

STAGES IN JV

- Creation: partner selection, negotiation style, location factor motivation for investment, perception and objectives,
- *-**Management:** strategic management: control and decision making, functional management: production, R&D, marketing, etc. ownership-control-performance, performance measurement shared management, dominant parent, independent child
- * -Evolution: further investment, divestment /termination, JV failure

CROSS-CULTURAL MANAGEMENT

- Communication and understanding, ability to learn and adapt,
- Applicability and transferability of Western management theory and methods
- Integration of different management systems, synergy in culture

METHODOLOGY

- Cross-sector analysis, industry/region wide survey, longitudinal study, case study, quantitative v. qualitative, first-hand, secondary

***Comparative Study**

- JVs in developed countries, in other developing countries, in culturally similar countries
- Experience in CIS and former Eastern Bloc countries (former planned economies)
- Differences in terms of partners: foreign, overseas Chinese, government or private
- Differences in terms of size, industry or region
- Differences in environment and management between JVs and domestic enterprises

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1. Asterisks indicate those areas which need most research attention.
 2. Many aspects listed above are interrelated and cannot be studied separately.
- a. The foreign partner is the firm registered out of China but is actually controlled by Chinese government or companies.