

**INTERNATIONAL JOINT VENTURE (IJV)  
CONTROL DESIGN: A CASE STUDY OF AN  
EMERGING MARKET IJV**

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International Joint Venture (IJV) Control Design: A Case Study of an  
Emerging Market IJV

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## **ABSTRACT**

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International Joint Venture (IJV) Control Design: A Case Study of an Emerging IJV.

Keywords: International Joint Venture, Control Mechanism, Formal Control, Social Control, Foreign Partner, Local Partner, Emerging Market.

This study aims to explore the various factors that influence the international joint venture (IJV) parent firms to use a specific control mechanism in an emerging market (EM). The study adopted a single case study design involving an IJV between a Nigerian firm as the local partner and a Chinese firm as the foreign partner. Data was collected through twenty semi-structured interviews from both the parent firms and the IJV; and complemented by observations of the IJV activities, relevant information from newspapers; magazines; company brochures and newsletters; and website of the parent firms, IJV and the government regulating body.

The study revealed that the design of formal and social control is influenced by a range of factors identified in the literature. This includes resource contribution and bargaining power, previous experience of the IJV managers, knowledge transfer, trust-building, environmental uncertainty, and institutional forces. In contrast to findings from existing studies, this study also reveals that a combination of factors can influence the use of a particular control mechanism. By examining the types of control exercised by each partner and the antecedent of each control type, this study complements prior research by incorporating insights from transaction cost theory, resource dependency theory, social exchange theory, institutional theory and organisational learning perspective to provide a more integrative explanation of IJV control design. Specifically, it explains how one partner develops certain types of formal and social control according to its individual resource contribution and dependency and can adjust controls to achieve its various objectives.

## **DEDICATION**

This thesis is dedicated to my Parent, Eteidung and Deaconess Okon Udo Ekpo for contributing immensely to who I am today.

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## **LIST OF ABBREVIATIONS**

EM – Emerging Market

JV – Joint Venture

IJV – International Joint Venture

RDT – Resource Dependency Theory

RBV – Resource-Based View

TCT – Transaction Cost Theory

SET – Social Exchange Theory

NEPZA – Nigerian Exporting Processing Zone Authority

LFZDC – Lekki Free Zone Development Company

LWIL – Lekki Worldwide Investment Limited

CALIL – China-Africa Lekki Investment Ltd

LSG – Lagos State Government

LSDPC – Lagos State Government Development and Property Corporation

CRCC – China Civil Engineering Construction Corporation Limited

CCECC – China Civil Engineering Constuction Corporation

CADFUND – China-Africa Development Fund

FTZ – Free Trade Zone

LFZ – Lekki Free Zone

LFTZ – Lekki Free Trade Zone

## **CHAPTER 1**

### **INTRODUCTION**

#### **1.0 Introduction**

This introductory chapter of the thesis presents the background of the study, research questions and objectives, and the expected contributions of the study. This chapter also provides a brief outline of the thesis.

#### **1.1 Research Background**

Over the last two decades, there has been a significant increase in the number of firms that have committed to the global market due to intensified competition within their domestic market and opportunities abroad, arising from falling barriers to trade and investment and technological advancement (Zhou and Ghauri 2010; Fatehi and Choi 2019). However, firms from emerging markets (EMs) are latecomers to the world economy, and typically they lack internationalisation experiences, professional expertise, technological and innovative capabilities and managerial competences (Luo and Tung 2007; Pedersen and Stucchi 2014). Hence, EM firms have sought the use international joint ventures (IJVs) to expand their business internationally (Beamish and Lupton 2009; Lynch and Jin 2016). The emerging economies are low-income, rapid-growth countries using economic liberalisation as their primary engine of growth (Nowlan 2006). Developing partnerships with foreign firms has become an essential strategy to compete effectively in the rapidly changing business era (Nielsen 2007). Among various types of partnerships for international expansion, the IJV mode is often favoured by EM firms. IJVs are equity-based entities created and managed jointly by two or more independent firms, where at least one of the partners has its headquarters located in a country outside the operational base of the JV, to pursue a common strategic objective (Hewitt 2005; Triki and Mayrhofer 2016). The use of IJVs allows firms to access new markets, bypass trade barriers in foreign countries more easily (Moskalev and

Swensen 2007), reduce transaction costs, realise economies of scale and scope (Klijn et al. 2014), and manage investment risks and environmental uncertainties in foreign countries more effectively (Luo 2007).

Despite the popularity and potential benefits of IJVs, prior research shows that control issues over the IJV's activities, is one of the challenges that parent firms face when entering IJVs (Geringer and Hebert 1991; Piaskowska et al. 2017). Groot and Merchant (2000) and Wong et al. (2005) argued that control is a key component of management; as ineffective and inefficient control can lead to instability and poor management of the venture, which are the major causes of IJV failure. This is because IJV involves two or more parent firms with differences in terms of national culture, geographical location (Cullen et al. 2000), legal system and political regimes (Luo 2005). These differences make the IJV more difficult to manage than the JV established in the home market, and wholly owned subsidiary established abroad (Beamish and Lupton 2009). In order to limit the issues resulting from such differences, parent firms often adopt various control mechanisms to achieve the strategic objectives they set out for the IJV, build trust between parent firms (Das and Teng 1998; Boersma and Ghauri 2004), facilitate knowledge transfer between parent firms and between parent firms and the IJV (Inkpen 2008; Brandao and Castro 2019), curb opportunism of parent firm(s), avoid potential risk that may occur in the IJV (Luo 2007; Ali and Larimo 2016), and improve the IJV performance (Zhang et al. 2007; Le 2009).

Against the above-mentioned background, there has been limited, in comparison to IJV performance, but increasing attention from scholars on IJV control. Berry et al. (2009) and Le (2009) highlighted that IJV control continues to be a fertile field for research, and suggested that more research is needed to yield insight into how organisations develop effective control systems. Coinciding with this view, Yan (1998) argued that parent control structure over time, is one of the key issues that has remained understudied and called for more research on antecedents of IJV control design. In their

study, Ramaswamy et al. (1998) only examined ownership as an IJV control mechanism and suggested an in-depth examination of diverse arrays of control mechanisms used in IJVs and their associations with the resource complementarities between the partners. Yan and Gray (2001) revealed that the bargaining power of the parent firms and the IJV performance triggers a shift in the control structure of the IJV, and suggested that future research should examine the role of local government in IJV control design. In the same vein, Zhang and Li (2001) investigated the dynamic relationship between control design and performance, focusing on the parent firms' formal strategic control over the IJV. While their findings showed that IJV performance is a motivating force that stimulates the evolution of control design, they concluded by stating that "how control design of IJVs evolve over time remains unclear" (ibid p. 342). Other researchers such as Le (2009), suggested that it would be worth researching the influence of negotiation of the foreign and local partner for IJV control. They also suggested exploring other factors such as operating environment, host country uncertainty and cultural similarity, as IJVs functioning in EMs are different from those operating in developed markets. Chen et al. (2009) and Li et al. (2010) lent further support to Le's (2009) recommendation to study how parent firms react to other organisational and contextual factors. Lastly, van der Meer-Kooistra and Kamminga's (2015) study recommended more studies to examine the antecedents that influence the management control patterns in IJV relationships. Based on the recommendation and gaps identified in the literature, this study focuses on exploring the various organisational, relational and external factors/antecedents that influence the design of specific formal and social control mechanisms used in an IJV formed by two EM parent firms.

In addition to the limited number of studies, there has been some disparities among the existing studies on the IJV control design, in terms of methodological approach, coverage of IJV parent firms and country choice, and the IJV control research has been dominated by quantitative studies (e.g. Fryxell et al. 2002; Le 2009; Chen et al. 2009; Liu et al. 2014;

Piaskowska et al. 2017), as has international business research in general (Werner 2002). IJV control design in practice involves multiple factors (e.g. trust, bargaining power of parent firms), and has often resulted from interactions of those factors and therefore requires an in-depth investigation of antecedents, with careful consideration of contextual factors such as national culture and institutions (Atalay and Sarvan 2014; Owens 2010; Shah 2015; Piaskowska et al. 2019). For example, questions such as, how do control dimensions get implemented or how do parent firms resolve the structural issue of lowering the use of expatriates through the introduction of control mechanisms appropriate to the local institutional setting, might be better addressed using a case study or interview approach. Recognising this, Doz (2011) has called for a methodological adjustment in international business research.

With regards to the coverage of IJV control research, most of the existing studies take on a single perspective approach. For example, Yan and Gray (1994), examined control design from one party perspective that is the foreign partner's perspective. Owens (2010) examined equity ownership and control of IJVs in the retailing sector, again from the foreign partner's point of view. Different from Yan and Gray (1994) and Owens (2010), Zhang and Li (2001) used IJVs' general managers, while Le (2009) used local parent firms as the primary informants. Acknowledging the incompleteness of their research coverage, they all recommended that future studies should use multiple informants from both foreign and local parent firms. This is to ensure that future research encapsulates the IJV control design, which is often simultaneously/jointly influenced by multiple stimuli (or determinants) within organisational, host-market environments, partners and relational factors such as trust, leadership, national culture and relative positions of IJV partners in terms of their resource commitments and needs.

In terms of case choices, existing research in the IJV literature has largely ignored the IJV control design in the context of EM firms. Historically, most

studies on IJV behaviours and outcomes have focused on developed market multinationals and firms (Hoskisson et al. 2000, Gullen and Gracia-Canal 2009; Meschi and Wassmer 2013; Kwok et al. 2018). However, studies have advanced the argument that EM MNEs are unique in their behaviour and strategies (Luo 2005); this calls for research to explore the control design of the IJV formed between EM firms. The increasing growth of outward investment from MNEs of emerging countries investing in other emerging countries in recent years, adds further weight to this call.

### **1.2 Research Aims and Objectives**

The overarching aim of this research is to explore the various factors that influence IJV control design and examine how these factors interact with each other to influence the IJV control design in the context of an IJV formed by two EM firms. To achieve this aim, the following objectives have been outlined:

1. To explore the various factors that influence IJV control design in the context of two EM parent firms.
2. To examine how the factors affect the IJV control design in the context of two EM parent firms.

### **1.3 Research Questions**

In order to achieve the overall aims and objectives of the study, the following research questions have been raised.

RQ1: What are the factors influencing the control design of an IJV formed between two EM firms?

RQ2: How do these factors affect the IJV control design?

### **1.4 Research Methodology**

This study adopts a qualitative research methodology approach with a view to provide an in-depth exploration of the subject matter. More specifically, it takes on an intrinsic single case study approach, focusing on an IJV in Nigeria, with the Nigerian partner as the local partner and the Chinese partner as the foreign partner.



Data was collected using a combination of primary and secondary data. For the primary data, twenty interviews with the managers and employees of both the foreign and local parent firms and the IJV were carried out between April and June 2017, and observations of the IJV activities were also carried out during the interview period. To enhance the quality of the research, secondary data (newspapers, magazines, IJV, local and foreign parent firm's website and newsletters, government agency website) were used to fill informational gaps and triangulate the data.

A thematic analysis technique was used, following the three main steps of transcription, data condensation and case analysis.

### **1.5 Research Contribution**

The contributions of this study enhance empirical, theoretical, as well as a managerial understanding of EM IJV control design. The findings will be of interest to international business scholars; particularly those that specialise in IJV control research, as well as firms adopting IJV as a means of internationalising and acquiring knowledge.

First, this study answers the call for integrating theoretical perspectives to examine IJV (Hillman et al. 2009), particularly in IJV control (Mjoen and Tallman 1997). Since each theory considers different aspect of an IJV, and each theory has it strengths and weaknesses, the combination of different theories allows a researcher to build a clearer picture of IJV and also provides a better understanding of the EM IJV control design. Drawing on the insights from transaction cost theory (TCT), social exchange theory (SET), resource dependency theory (RDT) and organisational learning perspective, this research adopts a case study approach to identify factors within the IJV, within the IJV relationship and factors within the external environment that influence EM IJV control design. In particular, the findings confirmed the efficacy of TCT (leadership, task complexity and uncertainty- economic factor), RDT (resource contribution, resource dependency and bargaining power), SET (trust), organisational learning (knowledge transfer/acquisition

and previous experience and expertise) and institutional theory (institutional forces, cultural distance and legitimacy). The factors identified in the theories were at play in the control design and the use/introduction of a particular control mechanism, and was also often influenced by a combination of factors rather than a single factor. However, such findings are in contrast with those of quantitative studies on IJV control, which typically report one to one relationships i.e. one determining factor leads to one particular type of control (Chen et al. 2009; Lee et al. 2011; Liu et al. 2014; Piaskowska et al. 2017). Furthermore, the findings in this study answers the call of applying multiple theoretical lens in examining IJV control (Mjoen and Tallman, 1997; Kogut 2002; Le 2009), as 'no theory alone is sufficient to encompass the complexity of JVs' (Parkhe, 1996: 451) including their control design and changes.

Second, research on IJV control is dominated by IJV between emerging and developed country partners, and IJV between developed and developed country partners. Hence, as a contribution to the literature, this research examined IJV control design from two EM partner perspectives. Here, the findings showed that the use of control mechanisms in the focal IJV was influenced not only by institutional forces in the host country but also government involvement. This finding extends the research of Das and Katayam (2003) and Kaminga and Van der Meer-Kooistra (2007) by adding that the government can assume the control over IJVs for pursuing their policy objectives, based on the resource they provided. Such involvement also has implications on IJV partners' bargaining power, and consequently the formal control arrangement between local and foreign partners.

Third, this study has managerial implications for the IJV, the foreign and local partners. The findings showed that while both parent firms and the IJV are considered, various challenges such as lack of trust and cultural differences arises within the IJV as they do not seek for active use of social controls at the initial formation stage of the IJV. This, however, was changed after the appointment of an experienced IJV manager, which is important for both

parent firms since the operating environment of the IJV in the foreign and local market are quite different.

Fourth, this study contributes to knowledge by providing an in-depth examination of an EM IJV control design by using a qualitative case study approach. Research in this area is dominated by quantitative approaches thus this study illustrated the value of a qualitative single case study approach as it allowed the researcher to make better sense of the complex nature of IJV control, in particular how factors within the IJV, within the IJV relationship and within the IJV environment are interlinked with each other to influence the control design.

## **1.6 Organisation of the Study**

The remaining chapters of this thesis comprise of six chapters, and it is structured as follows.

**Chapter Two** – Literature Review – this chapter critically reviews the relevant literature pertaining to international joint venture, IJV control mechanism, factors that influence the control structure and relevant foundation theories with a view to identify the research gaps and inform the development of the research aims, research questions and research design.

**Chapter Three** – Methodology – this chapter outlines the research methods used in this research in order to provide answers to the research questions. It highlights the research paradigm, the single case study approach adopted, and also provides an overview of the data collection instrument as well as the data analysis process used to answer the research questions.

**Chapter Four and Five** – Findings – these two chapters provide the analysis of the single case considered, by presenting the case profile and formal control design in chapter four and social control design in chapter five respectively.

**Chapter Six** – Discussion – The chapter discusses the findings of this research and links the findings to existing relevant literature.

**Chapter Seven** - Conclusion - the final chapter presents the contributions, limitations and suggestions for future research.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter reviews the literature related to the main concepts, constructs and theories that underpin this study. Given that the aim of this study is to explore the various factors that influence the EM IJV control design, this chapter presents an overview of the context of an EM with a focus on its main characteristics. This is followed by a discussion of IJV definitions, IJV formation motives, resource contribution of the parent firms and IJV control systems including concepts of formal and social control mechanisms. The literature review continues with the introduction of the foundation theories of IJV control. Finally, the chapter ends with the discussion of the factors influencing IJV control and a summary of the research gaps.

#### 2.1 Context

##### 2.1.1 Emerging Market

The economist Antoine Van Agtmael first coined the term 'emerging markets' (EMs) at the International Finance Corporation (IFC) during the promotion of the first mutual fund market in 1981. This term, emerging markets (EMs), is mostly used synonymously with 'emerging economies' (see, e.g. Wright et al. 2005; Xu and Meyer 2013). Despite the extensive use of the term emerging market/economies in the literature, there is no uniformity in its definition. For example, an EM can be defined as a country that satisfies three criteria: a rapid pace of economic development, government policies favouring economic liberalisation and the adoption of a free-market system (Arnold and Quelch 1998). Khanna and Palepu (2010) describe an EM as a country where specialised intermediaries or institutions function poorly; however, they have a fast growth rate as they are rapidly catching up with developed markets. Also, Luo and Tung (2007) defines an EM as a market, "that have undergone a significant structural transformation in the recent past... represent(ing) countries whose national economies have grown rapidly,

where industries have undergone and are continuing to undergo dramatic structural changes, and whose markets hold promise despite volatile and weak legal systems” (p. 482). The variation in EM definitions, in turn, leads to some inconsistency in the classifications of EMs. However, there is a consensus that EMs are low or middle-income economies with high economic growth potential (Meyer and Grosse 2018). Also, from the existing definitions (e.g. Hoskisson et al. 2000; Luo and Tung 2007), it can be established that EMs share several important features, which sets them apart from the developed markets.

Scholars have suggested various characteristics of an EM based on their definition. Van Agtmael (2007) provided a set of specific features that must be present, and they include: 1) The country transitioning from closed economy to an open economy, 2) implementing economic reform and having a more accountable system, 3) increases in both local and foreign investment, which includes portfolio and direct investment, 4) rising production levels and thus increase in GDP, 5) a stable political climate, 6) a shift from the sellers to the buyers in terms of the balance of economic power. Burgess and Steenkamp (2006) further argued that the main features of an EM should include: a small size economy that has a lower GNP per capita compared to developed markets and has high volatility in terms of the exchange rate, which implies greater risk in trading. Ramamurthi and Singh (2009) also identified five main characteristics linked with an emerging economy, namely that they have weak institutions, shortage of resources, socio-political governance, and market heterogeneity. The EMs represent a highly heterogeneous group in terms of economic size, population, level of per capita income and growth performance, with underdeveloped legal systems, weak enforcement of laws (Sharma 2014; Rottig 2016) and high levels of volatility in the market (Lesmond 2005). Therefore, based on the characteristics of EMs provided by various scholars, Nigeria, which is the host country of the IJV in this study, is classed as an EM due to the presence of government interventions, weak institutions and high levels of economic uncertainty. On the other hand, China which is the foreign partner in this

study is also an EM; however, it is considered as one of the largest EMs (Kharchenkova 2018).

The list of countries that are classified as EMs changes over time, as the markets that are included are often selected according to their annual growth indicators and projections. The list varies between institutions as they use a diverse range of indicators and different growth projections when creating the EMs list (Cavusgil et al. 2012). The International Monetary Fund (IMF), for example, classifies 23 countries as EMs, while Standard and Poor's also classifies 23 countries, Euromoney Institutional Investor Company classifies 72 countries, and Russel classifies 19 countries as EMs (Casanova and Miroux 2018). The countries that are common across the four organisations are China, India, Chile, Colombia, Hungary, Indonesia, Malaysia, Mexico, Russia, South Africa, Thailand, Turkey, Brazil, Peru, and South Africa (Ehrgott et al. 2011; Casanova and Miroux 2018). Among these EMs, China, India, Russia and Brazil are the biggest EMs, and have received a lot of attention in academia (e.g. O'Neil 2001; Sauvart 2005; Douma et al. 2006; Gammeltoft 2008; Luo et al. 2010; Kharchenkova 2018). For other EMs, such as Nigeria and Ghana, there has been much less research (Rottig 2016). Therefore, this study will focus on Nigeria, to bring new insights into this EM.

### **2.1.2 China in Context**

#### **Country Profile**

The People's Republic of China is located in the east of Asia bordering the Korea Bay, the Yellow Sea, the East China Sea and the South China Sea between Vietnam and North Korea. China is a country that has the second largest land area in the world. According to World Population Review report for 2020, China is the world's most populous country with a population of 1,439,323,776. It is a multi-ethnic nation with Han Chinese making up over 91.6% of the total Chinese population, which also officially has 56 minority ethnic groups. As the largest country in the world China consists of 23 provinces, 5 autonomous regions and 4 municipalities. The official language is Mandarin spoken by over 70% of the Chinese population but other major

dialects in use in China include, the Yue, Xiang, Min, Gan, Wu and Kejia and Hakka dialects. While Renminbi is the official name of the Chinese currency, Yuan is the unit of the Renminbi currency. China is also one of the largest emerging markets in the world (The World Fact Book 2020).

**Figure 2.1: Location of China in Asia.**



**Source:**

<https://www.nationsonline.org/oneworld/asia.htm#Southeast%20Asia>

### China's FDI Policy

China's open-door policy was initiated in the late 1970s. However, in the first years the amount of capital was limited, and many Chinese firms lacked international experience and so the foreign investments were dominated by state-owned enterprises (SOEs) (Wu and Chen 2001). By the late 1980s the government opened the country up further to FDI and began to encourage overseas investment by Chinese firms. The objective of allowing a certain amount of controlled Chinese outward FDI in this period was to ensure that it became an integrated part of the Chinese economy and contributed to social



welfare (Voss et al. 2008). During the 1990s, in addition to state-owned companies, more private Chinese enterprises started to invest abroad, with a more trade-related motivation. Their main motivation was to develop new markets, increase exports and obtain resources or commercial benefits (Wu and Chen 2001). In 1999 the Chinese government initiated the “Go global” strategy, a policy that provided a strong, public endorsement for an institutional environment that fostered outward investment (Voss et al. 2008). This strategy became formal policy by its incorporation in the 10th Five Year Plan in 2001 (Child and Rodrigues 2005). The “Go global” strategy sought to encourage and support Chinese companies to become more globally competitive and invest overseas through tax incentives and loans. Over the last decades, China has gone from being not only a large recipient of FDI but also a large source of outward foreign direct investments (FDI). The country started to invest abroad after economic reforms (Deng 2007) and since then, Chinese policy regarding FDI has changed and become more open, but the institutional framework is still very much regulated by the Chinese state. Typically, the government is still the main operational decision-maker regarding approval of investment projects on a variety of different levels (Drogendjik and Blomkvist 2013). Most Chinese OFDI activities in Africa are believed to be following governmental leads rather than being economically strong projects (Pan 2020).

According to the 2011 Statistical Bulletin of China’s Outward Foreign Direct Investment, China’s outward FDI net flows reached US \$74.65 billion, increasing by 8.5 per cent compared to 2010. Of this US \$6.07 billion was financial outward FDI and US \$68.58 billion was non-financial outward FDI. Among the outflow, US \$31.38 billion was incremental equity investment; US \$24.46 billion was reinvested earnings and US \$18.81 billion were other investments, accounting for 42%, 32.8% and 25.2% of the total respectively. In 2012, the Chinese share of global outward FDI had reached 6.7% of the world’s total outward FDI, according to the Economist Intelligence Unit’s estimate. Annual investment outflows from China have grown at an average rate of 35% per year since 2005, reaching US \$115 billion in 2012 (The

Economist Intelligence Unit, 2013). According to the figures published by the Ministry of Commerce and State Administration of Foreign Exchange in 2019, China's outbound direct investment across all sectors amounted to 807.95 billion yuan, which fell by 6% year-on-year (equivalent to US\$117.12 billion, down 9.8% year-on-year), of which China's non-financial direct investment in 6,535 overseas enterprises of 167 countries and regions reached 762.97 billion yuan, down 4.3% year-on-year (equivalent to US\$110.6 billion, down 8.2% year-on-year) (Ministry of Commerce People's Republic of China 2020).

China and Africa have a long history of economic and political ties, which have increased exponentially in recent years. China's economic engagement in Africa is seen in the development of finance, trade, investment and infrastructural support (Mlambo et al. 2016; Donou-Adonsou and Lim 2018). Over the last decade, bilateral trade between China and many African countries, and Chinese FDI in Africa has grown rapidly and has been accompanied by a major inflow of Chinese enterprises and workers on the African continent (Foster et al. 2009). In January 2006, China's African policy document was launched, which outlines the aims and objectives of Chinese policy towards Africa, and broadly includes mutual benefits, common development and win-win outcomes of economic relations. The Chinese government plays a crucial role in shaping the structures of its outward FDI and has used overseas investment to help strengthen its relationship with other economies, such as those in Africa (Deng, 2004). In addition, since a large part of Chinese outward FDI comes from state-owned multinational companies, Yeung and Liu (2008) suggest that this FDI represents a form of development assistance and regional solidarity. The policy document also shows government actions to foster trade, investment, financial services, agriculture, infrastructure, resources development and tourism. The implementation of the policy is supported by financial and technical assistance in non-commercial areas, such as health and education (Wang 2007). Donou-Adonsou and Lim (2018) noted that China's FDI explosion in Africa, which was preceded by President Jiang Zemin and President Hu

Jintao's visits to Africa in 1996 and 2004 respectively, was driven by the increased demand for resources and markets to support China's fast-growing economy, with a corresponding commitment to the growth and development of Africa. China's fast growing economy is also reflected in its level of industrialisation. Pan (2020) emphasised the opportunities that the increasing Chinese presence presents to Africa, by offering an expanding export market to China from African countries, by improving the infrastructure in many African countries, and by increasing the inflow of investment and development assistance to the African continent.

Chinese FDI has historically been concentrated in relatively few countries. In the period 2003-2007, five countries, namely South Africa, Nigeria, Sudan, Algeria and Zambia, accounted for more than 70% of China's outward FDI to the African continent. Political considerations always play an important role in any analysis of Chinese outward FDI (Cai 1999). In 2016, Nigeria became the largest recipient of Chinese FDI receiving about \$15 billion of its total \$26.5 billion investments in Africa (Raji and Ogunrinu 2018). Nigeria has continued to be one of the largest recipients of Chinese FDI to date (UNCTAD 2019) and is building relationship with Nigeria through trade, aid and investments, while Nigeria has also been exploring trading opportunities in China. The Sino-Nigerian relationship also has its basis on the premise of exploring their economic comparative advantages for mutual benefits. Furthermore, Sino-Nigerian trade has also increased as China's growing economy requires more raw materials from Nigeria; including crude oil to propel its industries. China is also taking advantage of Nigeria's huge population, estimated at around 206 million people (World Population Review 2020) to generate extra-territorial markets for China's manufactured goods. Due to its huge population and its wealth of natural resources, Chinese investments in Nigeria have become a trending issue since the turn of century, with more than 200 Chinese companies currently operating in Nigeria (Raji and Ogunrinu 2018). Indeed, Chinese outward FDI globally and Chinese investments tend to be attracted to countries with abundant reserves of natural resources and that have high political risk or an unstable

institutional environment (Pan 2020). Market seeking, and trade opportunities have also been recognised as potential motives for Chinese investments.

### **2.1.3 Nigeria in Context**

#### **Country Profile**

The Federal Republic of Nigeria lies in the southeast of West Africa with Niger to its north, Benin Republic to the west, Cameroon to its east and facing the Atlantic Ocean in the south. Nigeria is a key player in Africa and is referred to as the '*Giant of Africa*'. According to the World Bank Report (2019), Nigeria accounts for about half of West Africa's population with approximately 206 million people, which consists of one of the largest populations of youth in the world, over 371 ethnic groups, and the largest country in Africa. The dominant ethnic groups in Nigeria are Hausa from the north, Igbo from the southeast and Yoruba in the southwest. Despite the fact that Nigeria is a country that shares the same National Anthem and currency, it is a multicultural society and economy where different cultures are not similar. However, English is the official language and Naira is the operational currency.

Figure 2.2: Location of Nigeria in West Africa.



Source: <http://www.nationsonline.org/oneworld/map/west-africa-map.htm>

### Economic Outlook

Nigeria is classed as an emerging economy (EM) (Abiad et al. 2015). EMs are characterised as an economy with a sizeable population, cheap labour markets, and have a great amount of untapped potential and resources (Looney 2014). Nigeria is considered to be one of the countries in Africa with the widest variety of natural resources ranging from her natural, agricultural and human endowment. Nigeria has the largest natural gas reserves in Africa and is the biggest exporter of oil on the continent. Proceeds from oil account for almost 90% of exports constituting around 75% of the country's budgetary revenues. As at 2014, the AFDB declared Nigeria the largest economy in Africa after the government calculated its GDP over 24 years to be at an estimated market value of \$510 billion, overtaking South Africa and surpassing the rising sub-Saharan African EMs like Ghana and Kenya

(AFDB 2014). As of 2019, this continues to be the case, when a report by the World Bank confirmed Nigeria as the biggest economy in Africa (World Bank Report 2019).

Furthermore, Nigeria has the largest population in Africa followed by Ethiopia, Egypt, DR Congo and South Africa and has the 7th largest population in the world (World Population Review 2020). Consequently, the Nigerian market has grown to have a high market value in terms of human resources and this makes it attractive for international business as the population provides a great opportunity for partnerships, alliances and joint ventures. This provides Nigeria with an edge over other countries, making the market more attractive for foreign investors (Terwase et al. 2014).

Despite the robust economic growth in Nigeria, the country still continues to face some challenges in implementing reforms that could revitalise critical sectors of the economy, such as manufacturing, agriculture and power. Hence, the government introduced incentives to attract investors into the country that will aid the development of other sectors in the economy (Olaniyi et al. 2019). In line with this, the Nigerian government has provided an enabling environment by creating terms for business in various sectors of the economy and providing incentives for pioneer companies, such as tax holiday periods of five to seven years for those who locate in economically disadvantaged places within the country. There is also a new government policy enabling genuine foreign investors to obtain visas for access to the country within forty-eight hours on producing the required documents (Nigerian Investment Promotion Commission 2020).

### **Political Antecedents**

On the 1<sup>st</sup> of October 1960, Nigeria gained its independence from Britain and as a result of this Nnamdi Azikiwe became the first President of the Republic of Nigeria. In 1966, a military coup disrupted the civilian rule, which brought about the first of many military regimes. Throughout the 1960s, 1970s and 1980s there were restrictions on FDI but this changed in 1995 as the

Nigerian government adopted one of the most liberal regimes in Africa for the entry of foreign investors, virtually opening all its economy to FDI and reversing the severe restrictions on FDI imposed by the “indigenization” policy of the 1970s and 1980s. Mimiko’s (2002) study showed that one critical feature that defines the Nigerian economy since 1960, is a high propensity for policy turnover as a result of acute political instability. Government policies in Nigeria have not been stable over time; many economic policies have been adopted and the economic reform experiment continues to date. In the same vein, Schimillen (2010) argued that the Nigerian government needs to come up with a well-contrived regulatory business framework in order to attract foreign investors.

Although there is political instability in Nigeria, the government has taken certain steps to encourage, improve, strengthen and guarantee the security of investment in Nigeria through the establishment of various agencies, such as the Nigerian Investment Promotion Commission (NIPC) and the Nigeria Export Processing Zone Authority (NEPZA). NIPC was established to coordinate the granting of all approvals for establishing new businesses with foreign interests. Hence, the NIPC Act is Nigeria’s investment law and governs the entry of FDI. The NIPC Act also dismantled previous years of controls and limits on foreign direct investment, opening up nearly all the sectors to foreign investment and allowing foreign investors to have 100 percent ownership in some sectors. The NIPC was created with a mandate to encourage and assist with the investment in Nigeria (Nigerian Investment Promotion Commission, 2020). However, registration with the NIPC is not necessary for companies establishing in the Export Processing Zones (EPZs), or obtaining the “Export Processing Factory” status. Investment approval and licensing of such companies are carried out by the NEPZA. Following on to the introduction of the National Economic Empowerment and Development Strategy (NEEDS), the NIPC has been transformed into a promoter, facilitator and advocate of FDI. To this effect, in March 2006, a One-Stop-Shop Investment Centre (OSIC) was established within the NIPC premises (See Box 2). The NIPC reports that, since the introduction of the

OSIC, the steps necessary to obtain a Business Permit have been reduced from nine to three and that business permits are issued fairly automatically in 10 minutes (See Box 3). The legislation of the two major laws in 1995 (the Nigerian Investment Promotion Commission-NIPC Act 16 and the Foreign Exchange (Monitoring and Miscellaneous Provision) Act 17), significantly altered the status quo in the Nigerian FDI environment.

### **The main thrusts and strategic importance of the Nigeria-China Relations**

Ian's (2006) study revealed that there are eight core objectives that facilitated the Nigeria-China bilateral relations. These included guaranteed access and supply of raw materials for China in return for improved foreign exchange earnings for Nigeria, the creation of a market for both Chinese and Nigerian products in each other's markets, obtaining land for agricultural purposes and gaining Nigeria's diplomatic support for China's interests in international affairs – all this in exchange for technical aid and loan facilities for Nigeria. China-Africa relations also focus on China's objectives of presenting a credible alternative to the Western development model through foreign direct investment and disseminating to Nigeria these development models that largely rely on middle range technologies, unhindered migration of Chinese people to Nigeria and vice-versa. Another key thrust of China-Nigeria relations is the provision of optimal information on possible investment opportunities in both countries and on how to seize such opportunities by means of conferences, lectures and other forums of discussion.

The strategic relevance of the bilateral Nigeria-China relationship to the two countries is considerable. Currently, China is the second largest economy and the most populous country in the world. It has had the fastest global economic growth in the last three decades, averaging 10% annually, which has transformed it into a leading player in the global economy (Hurley 2018). As Nigeria is the most populous country and the largest economy in Africa, with vast reserves of oil and gas and other natural resources, its intention is



to learn from and possibly replicate China's success. In order to do so, Nigeria needs China's financial and technical assistance to nurture the conversion of its extensive primary raw materials into value-added products that can earn Nigeria more foreign exchange in the international markets (Adewole 2018). On the other side of the relationship, China needs Nigeria's oil and gas to propel its growing industry and offers potentially one of the largest markets in Africa for China's industrial products. Currently, Nigerian imports account for over a third of China's total trade with West Africa (Adunbi and Stein 2019).

China's economy is heavily diversified, with a high capacity to export various value-added products to many countries and generate huge foreign exchange. In contrast, Nigeria is still over-dependant on oil as the main driver of its economy and a weak source of foreign trade earnings. Thus, the diversification in China's economy can potentially provide a template for Nigeria's future economic growth. While China is the de facto leader of the developing world, Nigeria belongs to the African continent, with the largest number of developing countries that can be aided by China both in cash and in kind. Nigeria, along with many other African countries, also prefer to seek assistance from China as they have softer loan conditionality compared to the draconian loan conditionality of the Western countries. For instance, China is often willing to finance development projects in Nigeria, sometimes without collateral, a policy that many of its traditional partners from Europe refuse to adopt (Adewole 2018).

### **Challenges on the business environment for firms in Nigeria**

In spite of the benefits inherent in the bilateral relations between Nigeria and China and the relative strategic importance to both countries, there are also various challenges faced in the Nigerian business environment. Idowu and Abe (2013) fear that FDI in Nigeria has not been encouraging because of the major socio-economic and political problems in the country, such as high inflation, poor infrastructure, corruption and insecurity that is reflected in the nominal growth of the country, low interest rates, an unfavourable exchange

rate and unnecessary barriers to trade and inflows of capital that mainly come in the form of legal requirements, tariff barriers and duplicate tax system. There is also the real fear of a potential future burden in the form of higher taxes and levies that might be imposed to redeem huge debts, especially external debts that seem to deter the inward flow of FDI to the country.

Furthermore, in Nigeria, government policies are unstable largely due to the fact that every new government comes with their own and often new policies. Although some policies might be good, they can be inconclusive, while others are abandoned and discarded for political reasons or because of the selfish interests of those in power at that time, which might discourage investors. Indeed, Bello (2011) argued that inconsistent government policies are the major challenge that investors face in the Nigerian business environment.

Furthermore, the 1999 Constitution of the Federal Republic of Nigeria specifically states, that “the security and welfare of the people shall be the primary purpose of government”. However, the government often fail in their constitutional responsibility, by failing to provide a secure and safe environment for conducting business and other economic activities (Olukayode and Urhie 2014). For example, in the Northern region of the country, there is a high level of insecurity with ‘Boko Haram’, which threatens business activities. Insecurity discourages business investment as it increases the cost of doing business, either directly through the loss of goods and property, or indirectly by taking precautions against business risks and uncertainty. Undoubtedly, such costs will have a negative impact on business development and progress (Ifeoma et al. 2015), not only for those directly active in Nigeria, but also for the reputation of Nigeria in the international community as a place that is not safe and secure, and as such will deter any potential investment and business activities (Udoh et al. 2019).

## **2.2 International Joint Venture**

The definition of joint venture (JV) has been generally agreed, even though differences exist. According to Geringer (1988), JV is defined as “a discrete entity created by two or more legally distinct organisations (the partners), each which contributes less than 100 percent of its assets and actively participates, beyond a mere investment role, in the joint venture’s decision making” (p. 4). Yan (1998) views a JV as a legally and economically independent organisational entity that collectively invests equity and other resources in order to pursue certain strategic objectives. Other scholars such as Desai et al. (2004) and Tokman et al. (2007) argued that a JV is established when two or more independent firms bring their resources together, in order to form a third entity for the delivery of services and production of goods. Thus, in this study, the researcher incorporated both definitions by considering IJV as a separate company formed by two or more firms, where the parent firms are fully involved in its daily activities including the pooling of labour and resources in order to achieve a common business goal.

In terms of JV partner geographic locations, a JV is classified as a domestic joint venture (DJV) or International Joint Venture (IJV) (Moskalev and Swensen 2007). DJV is the establishment of a JV with two local partners within the same country (Kogut 1988). Following Geringer and Hebert’s (1989) study, they stated that a “JV is considered to be international if at least one of the partners is located outside the JV’s country of operation, or if the JV has a significant level of operation in more than one country” (p. 235). More precisely, an IJV is a separate legal, organisational entity formed by parent firms originating from different countries (Shenkar and Zeira 1987), one of which can be the country where the IJV resides.

Furthermore, IJV is classified as equity and non-equity IJV. According to Hennart (1988), “an equity joint venture arises as two or more sponsors bring given assets to an independent legal entity and are paid for some or all of their contribution from the profits earned by the entity, or when a firm

acquires partial ownership of another firm” (p. 362). In equity IJV, the partners create a new corporate entity in which each of the partners own a given share of equity based on their capital commitment (Kale et al. 2000). The partners become shareholders of the company without giving up each other’s legal and economic independence (Luo and Park 2004). On the other hand, non-equity IJV is labelled as a contractual IJV, where the partners do not create a new entity (Wang 2007). Thus, the domain of this study comprises of an equity-based IJV with a Nigerian firm as the local partner and a Chinese firm as the foreign partner.

### **2.2.1 Motives of IJV Formation**

The motives for the formation of IJVs have attracted much attention in the international business literature. Scholars have identified a wide range of motives, for example, Harrigan (1985) listed three benefits arising from IJV formation, namely internal, strategic and competitive benefits. Kogut (1988) asserts that the motives for IJV formation are to reduce transaction costs, acquire knowledge and know-how from the parent firms, and also respond to external environmental pressures, including institutional pressure that leads firms to pursue activities appearing in agreement with dominant rules, requirements and norms, hence improving their legitimacy in the host market (Oliver 1990).

Considering locational disadvantages facing foreign investing firms, Glaister and Yu (1993) and Barkema and Vermeulen (1997) maintain that the key force motivating IJV formation by foreign firms, is to gain faster entry into the market and also gain access to largely intangible resources they have had difficulty acquiring. Reus and Ritchie (2004) progress further to add that the local partners entering into IJVs can also benefit from the opportunity to learn and acquire new/advanced skills and technologies possessed by foreign partners. Since IJVs are often formed in order for the partners to create new products and services and/or enter a new foreign market (Beamish and Lupton 2009), there is a need for the IJV partners to pool complementary resources, skills and knowledge in their IJV operations, which in turn may

help the competencies of operations in partnering firms (Hyder and Ghauri 2000; Merchant 2005). In summary, parent firms involved in this inter-organisational arrangement, engage in mixed-motive games where competitive and cooperative dynamics occur (Yan and Luo 2001).

IJV motives can be examined from different theoretical perspectives. This includes transaction cost theory (TCT), resource-based view (RBV), resource dependency theory (RDT), institutional theory and organisational learning theory. TCT suggests that cost minimisation is the primary motivation for IJV formation (Williamson 1991; Hennart 2010; Khalid and Ali 2017). Different from the transaction cost perspective, the RBV emphasises the role of synergy between the partners (Tsang 2000; Chen and Chen 2003) and the RDT sees the dependence of parent firms on each other's resources as the driver for their IJV behaviour (Pfeffer and Salancik 1978; Hillman et al. 2009). Complementing the three widely applied theoretical perspectives, existing studies on IJV applying the Institutional based view typically focus on legitimacy challenges (Oliver 1990; Owens et al. 2013), and those based on organisational learning theory typically focus on knowledge acquisition/transfer (Kandemir et al. 2005; Piaskowska et al. 2017).

The IJV motivations can also be viewed in relation to contextual factors, particularly location. Existing studies have revealed that the main motive for entering an IJV in an EM by the foreign partner from an advanced economy, is to gain faster entry to the market (Glaister and Wang 1993) and overcome government-mandated barriers (Boateng and Glaister 2003). On the other hand, the motives for entering an IJV in an advanced economy by a firm from an EM, is that it serves as a springboard for compensating their competitive disadvantages, overcome their weaknesses quickly (Beule et al. 2013), and also gaining access to technology and brands in order to fill the resource void (Luo and Tung 2007). Therefore based on these established motivations, further investigation should be conducted to explore what motivates EM firms to internationalise through IJV into another EM.

### **2.2.2 Resource Contribution of the Parent Firm**

Parent firms contribute various types of resources to IJVs. According to Barney (1991:101), “firms resources include all assets, capabilities, organisational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness”. In general, IJV research follows this definition when discussing parent resource contributions in IJV. For example, Chen et al. (2009) classified the resources contributed by the parent firms into property-based (financial capital, physical assets, patents and brands) and knowledge-based resources (intangible know-how and skills).

With regards to resource contributions by each partner, Yan and Gray (1994) considered the main resources contributed by foreign partners are management expertise, global support and technology, while the local partner contributes expertise in terms of local sourcing, personnel management and domestic distribution. According to Inkpen and Beamish (1997), the resources contributed by the local partner revolve around understanding the local market, cultural, political and environmental conditions of the IJV host country. Sharp and Barz (1997) revealed that the foreign parents typically provide two types of support to their joint ventures: (1) technical support, which includes process and product technology, and (2) managerial support, which entails administrative know-how, managerial expertise, and marketing direction. Extending and complementing Sharp and Barz (1997)’s study, Luo (2002) classifies the foreign partner attributes into three categories, namely strategic (technological capability, market power, and marketing expertise), organisational (managerial skills, international expertise, and corporate reputation), and financial (cost control, capital allocation, and asset management).

### **2.3 International Joint Venture Control System**

Despite previous literature having highlighted the various benefits of IJV formation as mentioned in section 2.2.1 and 2.2.2, Zhang and Li (2001) argued that IJVs have their drawbacks and challenges. One of the major

problems faced by parent firms is the issue of control over the strategic and operational activities in the IJV (Groot and Merchant 2000; Amtmann 2005; Duplat et al. 2018). Coinciding with this view Geringer and Hebert (1989) stated that, “a firm that agrees to participate in an IJV inevitably complicates its life” (p. 236). This is because exercising control in an IJV is a complex task due to the differences in political, economic, cultural, geographical location, and mode of doing business (Inkpen and Currall 1998; Moskalev and Swensen 2007). Hence, control is required to influence and balance the conflicting differences (Ding 1997).

According to Ouchi (1977:95) “control can be conceptualised as an evaluation process which is based on the monitoring and evaluating of behaviour or outputs”. Salancik and Pfeffer (1978) view control as the use of power, authority and other systems to monitor and influence the activities and outcomes of a firm’s subunits and its members. Geringer and Hebert (1989) defined control as “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 range of bureaucratic, cultural and informal mechanisms” (pp. 236-237). Geringer and Hebert (1989) also classified control into control mechanism, the extent of control and control focus. In this study, the researcher incorporated these concepts by considering control to be a key component of IJV management, as it enables both the foreign and the local parent firms to influence each other’s activities in accordance with each parent firm’s ultimate purpose, and also hold each partner accountable for their actions. In addition, the researcher will also be focusing on control mechanism.

Faced with the puzzle of which IJV control system to adopt, extant research has proposed various approaches to gain a better understanding of the subject matter. This includes ownership (e.g. Madhok 2006; Owens 2010), trust (e.g. Ng et al. 2007; Khalid and Ali 2017), autonomy (e.g. Luo et al. 2001; Choi and Beamish 2004), conflict (e.g. Barden et al. 2005; Liu et al. 2013), performance (e.g. Huang et al. 2015; Kwok et al. 2018), instability

(e.g. Yan and Zheng 1999; Chalos and O'Connor 2004), knowledge acquisition/transfer (e.g. Piaskowska et al. 2017; Minbaeva et al. 2018), and dynamics (e.g. Yan and Gray 1994; Chen et al. 2009; Van der Meer-Kooistra and Kamminga 2015). Despite the extensive research in this field, Ramaswamy et al. (1998) highlighted that parent firms and IJV managers are calling for scholars to “shed some light on the most effective way to control their IJVs, especially those in developing or emerging markets” (p. 427). Extending and complementing Ramaswamy et al.'s (1998) recommendation, Le (2009) suggested that more research is needed to provide more insights on how firms can design and develop an effective IJV control system. In the same vein, other researchers, such as van der Meer-Kooistra and Kamminga (2015), Khalid and Ali (2017) and Balboni (2018) have argued that the subject of IJV control is an important topic that cannot be over-emphasised.

### **2.3.1 Control Mechanism**

IJV parent firms protect themselves against risks and hazards that may be present within the IJV, the IJV relationship and the IJV external environment, through the use of control mechanisms (Le 2009; van der Meer-Kooistra and Kamminga 2015). According to Fryxell et al. (2002), control mechanisms are structural arrangements deployed to determine and influence what organisational members do (p. 868). Previous studies proposed a range of control mechanisms that can be used to exert controls, including ownership, board of directors, staffing, possession of equity and voting rights, contracts, communication, formalised rules and routines, roles and responsibilities, mentoring and training, appointment of key personnel, meetings, site visits, socialisation, staffing and frequent interactions (Wang et al. 1998; Chalos and O'Connor 2004; Lu and Hebert 2005; Chen et al. 2009; Owens 2010; Kamminga and Meer-Kooistra 2015; Duplat et al. 2018). Various scholars have attempted to classify these tools within a specific framework with reference to IJV. However, there has been no agreed classification of control mechanisms (Chen et al. 2009) as seen in the table (2.1) below.



**Table 2.1: Summary of the Previous Classification of Control Mechanism**

<b>Authors</b>	<b>Classification of Control Mechanism</b>
Ouchi (1979)	Market, bureaucratic and clan control
Schaan (1983)	Positive and negative control.
Killing (1983)	Formal agreement, staffing and influence technique.
Anthony (1988)	Management, task and strategic planning control.
Martinez and Jarillo (1989)	Structural/formal mechanisms and Informal/subtle mechanisms.
Geringer and Hebert (1989)	Formal and informal control mechanism.
Anthony and Govindarajan (1998)	Personal, bureaucratic and social or culture control.
Groot and Merchant (2000)	Action, result, personnel or culture control.
Yan and Gray (1994, 2001)	Strategic, operational, structure control.
Kamminga and Van der Meer-Kooistra (2007)	Content-based, consultation-based, context-based control pattern.
Li et al. (2010)	Formal and social control.
Liu et al. (2014)	Output (final outcomes), process (behaviour during the process) and social control (personal interaction).
Cao and Lumineau (2014)	Contractual and relational governance.

The table above shows that Ouchi (1979) was one of the first scholars to study and classify control mechanisms into three types, market, bureaucratic and clan control. Over time, other scholars have used different constructs to refer to control mechanisms, which are summarised in table 2.1. Researchers use the constructs interchangeably, for example Le (2009) used social control to capture the bureaucratic and clan control. In the same vein, Faems et al. (2008) took contractual and formal control to be the same. For the purpose of this study, Li et al.'s (2010) classification of control mechanisms, which is made up of formal control and social control, was adopted and are detailed in the following sections.

#### **2.3.1.1 Formal Control**

Parent firms increasingly rely on formal control to manage IJVs because it depends on hierarchies, standards, clear goals and procedures in written format, and codified rules through which firms can influence their partners to behave in a specific way in order to achieve organisational goals (Le 2009). Formal control focuses on the prescribed form of control, which utilises tangible instruments to regulate inter-organisational transactions (Banihashemi and Liu 2013). Previous studies have highlighted how IJV parent firms exercise formal control through ownership, formal agreements (contracts), approvals and the use of board of directors, formal meetings, appointment of key personnel, strategic planning, setting up policies and procedures and partner rights to veto IJV management (Wang et al. 1998; Owens 2010; Liu et al. 2014; Haung et al. 2015; Duplat et al. 2018).

Despite the various formal control mechanisms mentioned, much of the early IJV literature highlighted that foreign parent firms often relied on ownership as the main control mechanism (Beamish 1985, 1988; Blodgett 1991). Killing (1983) proposed that a foreign parent firm should seek dominant control by structuring majority-owned IJVs. Yan and Gray (1994) argued that a shared management control structure may be beneficial, with a balanced ownership structure between the partners in the IJV. In an EM IJV with a foreign partner from a developed market, the foreign partner negotiates for dominant

ownership in the IJV as it helps them gain majority control over the activities in the IJV. Owen (2010) examined the determinants of UK IJV equity ownership from the perspective of the retail organisation, and the study revealed that ownership is influenced by various factors within the organisation, for instance capital availability and requirement, strategic resources rational of JV and securing partner commitment, strategy, management control within operation, managerial risk aversion and inexperience). It is also influenced by the partner, for example through cooperative traits and bargaining power, and the host market through government investment policies.

In relation to the ownership control, contract is another important formal control tool. Contract entails a legal commitment and introduces clearly defined roles and responsibilities of the parent firms (Dyer 1997; Li et al. 2010) along with the ownership shares agreed between parent firms. The appointment of a board of directors is another key formal control, as they are in charge of approving major investments, business plans and making other important decisions regarding the IJV (Child and Yan 1999). They serve as a direct link between the parent firms (Le 2009). The ownership structure again is a decisive factor, as the appointment of the board of directors is likely to be dominated by the majority shareholder (Griffith et al. 1998). Supporting this view, Mjoen and Tallman (1997) posited that the partner with the dominant equity share will have greater power on the board and have the ability to influence the activities of the IJV. Control over key appointments is particularly important in an EM because suitable experienced and qualified local managers are in short supply (Reuer et al. 2014; Hearn 2015). In addition to ownership structure, parent firms' previous IJV experience and expertise can also play a role in the selection and appointment of the board of directors (Lai et al. 2014), and in shaping the formal control in the IJV. Indeed, Inkpen and Crossan (1995) noted that frequent formal meetings between venture managers and head office personnel, planned visits and information sharing had been used for greater collaboration in IJVs with experienced parent firms.

With regard to timing of formal control adoption, previous research (Kausser and Shaw 2004; Selekler-goksen and Uysal-tezolmez 2007), has suggested that it is important to adopt formal control in the early stage of the IJV as it serves as a means for protecting the parent firms' assets (Fryxell et al. 2002). Such clear rules and regulations help to reduce opportunism between the parent firms by controlling the assets through hierarchical means (Mjoen and Tallman 1997). Coordination and adaptation of the IJV relationships can also be better achieved through formal control (Malhotra and Lumineau 2011; Schepker et al. 2014).

### **2.3.1.2 Social Control**

Against the aforementioned formal control, firms are increasingly resorting to social control in managing their employees and the organisation itself (O'Reily and Chatman 1996). According to Geringer and Hebert (1989), social control "encompass informal and culture-based mechanisms, and the essential purpose is to establish an organisational context suitable for the achievement of parent objectives" (p. 241). Kärreman and Alvensson (2004) view social control as a tool used to persuade people to adapt to certain values, norms and ideas about what is good and important in an organisation. Other scholars, such as Das and Teng (2001) and Inkpen and Currall (2004), argued that social control relies on informal means, while Koskiniemi (2009) points out that it is subtler and intangible in nature. Social control is governed by social relations and shared norms, and is set to motivate the IJV employees to behave in specific ways that will be beneficial to the venture, and effectively eliminate goal incongruence between the parent firms (Fryxell et al. 2002; Child et al. 2005; Cao and Lumineau 2015).

In existing literature, a range of social control mechanisms have been identified, including frequent interactions, training, informal meeting, mentoring, communication, informal events, direct management contact through trips, site visits and establishment of personal relationship with IJV managers and the parent firms (Das and Teng 1998; Yan and Gray 2001; Inkpen and Currall 2004; Hoetker and Mellewigt 2009; Meira et al. 2010).

Gywali and Tao (2009) highlighted that parent firms instil norms and values through personal interaction, training and socialisation. Ghauri et al. (2013) and Park and Vertinsky (2016) argued that the use of training and informal communication in IJVs enables knowledge creation and transfer between the parent firms and the IJV employees. Training serves as a means for gaining new skills or updating existing skills needed in the IJV, thereby helping the employees improve individual and team efficiency, and standards of work (Kirsch et al. 2002). Expanding on this point, Kamminga and Van der Meer-Kooistra (2007) considered training programmes, staffing, and participation in the planning process of the IJV employees. Their findings revealed that these tools help the parent firms to eliminate various parental differences that might exist, for instance, differences in interest, contribution, organisational and cultural background. Frequent communication between the partners has also been sought as a useful social control tool, as it enhances transparency, encourages trust-building and leads to greater cooperation (Koskineemi 2009).

In their studies, other scholars such as Chalos and O'Connor (2004), explored socialisation practices, expatriate staffing, delegated decision making responsibilities, manager performance incentives and parent company communication. Their findings showed that in addition to the importance of social controls in IJV, the partner knowledge and specific asset investments, influenced a broad set of controls. The foreign partner considered controls to be particularly useful for the selective transmission and protection of their knowledge, while the local partner viewed the same controls as a means to selectively share and protect their specific asset investments in the ventures. In the same vein, Chen et al. (2009) revealed that output, process and social control are used by both the foreign and local partner in the IJV, based on the idea that different types of control are used to achieve different purposes. Their findings showed that a property-based resource contribution is related to output and social control, while knowledge-based resources are linked to process and social control. This revealed that social control can be influenced by formal control and complementary to formal controls. As the IJV partner interface evolves and common values and

norms for the IJV emerge, social control complements formal control in some cases (Inkpen and Currall 2004). According to Poppo and Zenger (2002), formal and relational contracts complement each other since well-specified contracts promote more cooperative, long-term, trusting exchange relationships. In the same vein, formal control may be able to mitigate deficiencies inherent in social control (Kreutzer et al. 2016). Cardinal et al. (2010) stated that organisations that combine formal and social control will develop a complementary relationship.

Despite the extensive research on the various IJV control mechanisms as mentioned in section 2.3.1.1 and section 2.3.1.2, research gaps still exist in the literature. Li et al. (2010), for example, recommended more research is needed to examine the associations between specific control mechanisms (such as meetings, socialisation, communications), and the various organisational and contextual factors. Chen et al. (2009), considering differences across countries in terms of national culture and institutions, suggested that “it would be interesting to explore how parent control is determined for IJVs in other countries” (p. 1152). Van der Meer-Kooistra and Kamminga (2015) recommended more studies are needed to examine the antecedents of management controls and more importantly their influences on the patterns of management controls in IJVs.

## **2.4 Foundation Theories of IJV control**

Extant literature uses various theoretical perspectives to investigate and explain IJV. Empirical and conceptual studies have used transaction cost theory (e.g. Brouthers and Hennart 2007; Khalid and Ali 2017), organisational learning theory (e.g. Brannen and Salk 2000; Piaskowska et al. 2019), institutional theory (e.g. Yiu and Makino 2002; Gaur and Lu 2007), contingency theory (Chenhall 2003; Lu and Hebert 2005), network theory (Kogut 2000; Le 2019), resource dependency theory (Yan and Gray 2001; Hillman et al. 2009), social exchange theory (Muthusamy and White 2005; Kwon 2008) and a variety of other theories. However, not all the theories used in international business research will be able to explain the complexity

of IJV control. Hence, this study will draw upon insights from five theoretical perspectives to identify and explain the factors that influence the IJV control system. These theories are reviewed in connection with IJV control research.

#### **2.4.1 Transaction Cost Theory**

Transaction cost theory (TCT) was developed by Coase (1937), and was further developed by Williamson (1979) and many others. The theory has been the dominant theoretical lens used in the study of IJVs. TCT has not only been successfully used in providing explanations for IJV formation (e.g. Hennart and Zeng 2005; Brouthers and Hennart 2007), but it has also been extended to study how parent firms manage IJVs through the use of appropriate control systems (Banihashemi and Liu 2006). Coinciding with this view, Geringer and Hebert (1989) argued that the application of TCT in the investigation of IJV control is one of the most promising research avenues that can help clarify and resolve empirical inconsistencies in this area.

Firms in an inter-partner relationship are usually tied by contracts, most common is a formal contract. The role of contracts is another central mechanisms in TCT and contracts are established to certify and specify promises, obligations and responsibilities, together with a process to settle conflicts. A contract contributes as a perceived, or intended legally binding framework between two or more parties and can take different forms, such as written or verbal, implicit or explicit. As formal contracts hamper the risk of knowledge leakage and the utilisation of private advantages, informal contracts increase the probability of inter-partner conflicts and accusation shifting between the parties could emerge. The informal contract also affects the management in the inter-partner relationship as the coordination of operations, strategy implementation, and resource utilisation is hindered (Luo 2002). The formal contract and its completeness are suggested by TCT and this leads to the main assumptions of the theory, which are bounded rationality and opportunism (Williamson 1937).

Bounded rationality means that the capacity of the human being to formulate and solve complex problems is limited (Douma and Schreuder 2002). According to Simon (1961: xxiv), “human behaviour is intendedly rational but only limitedly so”, because of restricted cognitive capacities. Hence, IJV parent firms are usually tied to a contract (Luo 2002), but they may not be able to formulate a well-devised contract or identify possible future contingencies especially in the case of Ems, which are characterised by weak institutions and unstable business environments. Therefore, the IJV contract will more likely have a high level of incompleteness (Tsang 2000; Luo 2005). Due to the issue of bounded rationality, IJV parent firms select control structure that helps minimise transaction costs (Gulati and Singh 1998; Yan and Gray 2001), which include cost of drafting, negotiating, and enforcing contracts and monitoring the venture’s performance. When there is a need to respond to the changes in the environment, the parent firms may also need to modify the contract. This creates additional costs for the parties involved (Rindfleisch and Heide 1997; Poppo and Zenger 2002). Thus, an appropriate equity ownership structure should effectively and efficiently control and monitor the activities in the IJV, while minimising the cost (Richard and Yang 2007).

According to Williamson (1985), opportunism is defined as “self-interest seeking with guile” (p. 47). The IJV parent firms will want to act based on trust; however, it is difficult to know a priori if the partner is trustworthy or not (Barney 1991). Luo (2005) argued that contracts play an important role in alleviating the potential problem of opportunism and this occurs when the contract is structured multi-dimensionally. In this case, the parent firms will be able to curb opportunism, guide the venture’s evolution and protect the IJV parent firm’s own interests. Without appropriate protection mechanisms, such as high equity control and the use of formal and informal contracts, opportunistic behaviour can be prevalent, or the foreign partner may be reluctant to transfer proprietary assets to the IJV (Lu and Hebert 2005).



According to TCT, asset specificity, transaction frequency and uncertainty are key determinants of transaction costs and which also lead to the emergence of IJV control (Williamson 1975, 1985). This study focuses on how asset specificity and uncertainty (internal and external) influences the control design in the context of an EM IJV. Asset specificity is the “degree to which an asset can be redeployed to alternative uses and by alternative users without a sacrifice of productive value” (Williamson 1988:70). An important view in TCT is that IJVs are designed to allow parent firms to combine complementary resources/assets (Hennart and Zeng 2005). In IJVs, parent firms have access to assets contributed by one another, and such access offers one parent firm a greater opportunity to acquire and appropriate the other’s key firm-specific assets (Hamel 1991). Ali and Larimo (2016) explain that resource complementarity is one of the driving factors of TCT and the motivation for IJV formation. Chalos and O’Connor (2004) and Le (2009) argued that the IJV control structure chosen is mainly determined by the extent of asset specificity involved in the transaction concerned. That is, the more critical the asset contributed by a foreign parent firm to the IJV, the greater the need for control. Van der Meer-Kooistra (1994) identified four types of assets - physical, procedural, human and dedicated assets. However, Zaheer and Venkatraman’s (1995) study showed that physical and dedicated assets can be relatively safeguarded by the use of contracts in IJVs, while procedural and human assets are more difficult to be safeguarded by contracts due to the tacit nature of the information exchanged. This is because procedural assets involve the knowledge of and experience with the workflows and processes of the other party, while human asset involve the skills, knowledge and experiences that are tailored to the other partner’s needs (Kamminga and Van der Meer-Kooistra 2007). Task complexity involves the degree of standardisation and task difficulty (Gupta et al. 1994). Fry and Slocum (1984) argued that managers working in a high uncertainty situation, might not have all the information they need to perform the task. However, task interdependence involves the extent to which the work requires collaboration among supervisors and various work-unit members (Gupta et al. 1994).

However, Delios and Henisz's (2000) study showed that there is a positive relationship between the asset specificity and the propensity of high ownership and control in IJVs. Without appropriate protection mechanisms, such as contract and high equity control, the foreign parent firm might be reluctant to transfer its proprietary assets to the IJV. In the same vein, Lu and Hebert (2005) argued that under high asset specificity, the foreign parent firm might seek a high ownership level, and under low asset specificity, extensive control may involve governance costs and also hamper the efficiency of IJV control.

Uncertainty involves the change in the environment that the parent firms cannot foresee, hence it can be categorised as internal and external uncertainty (Meyer and Wang 2015). In the case of external uncertainty, IJV parent firms are facing an ever-growing degree of unexpected occurrences, which is largely due to a weak legal system, unstable political regimes, and other factors (Pangarkar and Klein 2004; Nguyen and Larimo 2009) found in EM. This uncertainty poses a challenge in terms of difficulties in anticipating and modifying IJV agreements to the changing circumstances, thereby increasing renegotiation costs and also subsequent control costs needed to protect the investments contributed by parent firms to the IJVs (Lu and Hebert 2005). The level of uncertainty in the host country influencing the IJV control design has been well documented in the literature (Johnson et al. 2002; Kamminga and Van der Meer-Kooistra 2007). Parent firms adjust their control system over the IJV, based on the host country's uncertainty to cope with cultural differences and frequently changing legislation and policies of the local government (Birnberg 1998; Kamminga and Van der Meer-Kooistra 2007). Research on this in general, finds that in a low uncertainty country, IJVs tend to perform better when parent firms exercise social control (Le and Larimo 2009), and in a high uncertainty country, IJVs tend to perform better when they have sought and implemented formal controls effectively (Luo 2005). Furthermore, culture is another source of external uncertainty in IJVs, and this is as a result of the foreign parent firm operating in a culturally new

environment. IJVs established in culturally distant countries encounter large knowledge barriers regarding local culture and social norms (Lu and Hebert 2005). In the context of international joint ventures, environmental uncertainty is even more salient because of differences in culture, political and economic institutions, and legal systems (Luo, 2001; Khalid and Ali 2017).

On the other hand, internal uncertainty refers to the uncertainty about the operation of both the foreign and local parent firms. This form of uncertainty involves a foreign parent firm's lack of knowledge about the host country and target industry. Lack of knowledge can make a foreign investor prone to opportunistic behaviour by the local parent firm. Hence, to guard against potential opportunistic behaviour by local parent firms, foreign parent firms can resort to high equity ownership. However, foreign investors are also able to develop for themselves knowledge and capabilities suited to the host country and target industry through operations in the host country and/or in target industry. As a foreign firm accumulates experience-based knowledge about host countries and target industries, they also develop social knowledge about their local partners (Lu and Hebert 2005).

Despite the popularity of the use of TCT in IJV control research, it has also received some criticism. According to Larson (1992), the theory has not been able to fully explain the IJV control system for several reasons. First, TCT is static in nature (Langlois 1992). The theory focuses solely on transaction costs and contracts; however, it neglects the dynamic nature of IJVs and other control mechanisms used in inter-organisational relationships (Hennart 1988; Dekker 2004). While TCT takes into account market uncertainty, it places more emphasis on the protection of firm's assets through formal means e.g. contracting. Emerging economies such as China and Nigeria, firms may not be very effective in minimising transaction costs through such formal means (Meyer and Wang 2015). In emerging economies, weak institutions/legal systems may increase search, monitoring and enforcement costs (Luo 2007), while regulatory ambiguity and corruption tend to increase external uncertainty in EMs (Li and Meyer 2009). According to Le (2009), in

such a setting, TCT does not fully explain the dynamic nature of the transactions to be performed.

Second, while TCT has been instrumental in identifying the factors that drive transaction costs, the theory states that the choice of the control mechanism is only dependent on economic considerations. It should recognise that the choice of control mechanisms are also socially motivated (Poppo and Zenger 2002). Madhok (1995) stated that the theory puts too much emphasis on “hard issues of ownership and control” (p. 126) and neglects the role of social relationships in economic transactions and does not appreciate trust between IJV partners. This means the theory is not sufficient enough as it has a singular focus (Larson 1992; Yan 2000).

#### **2.4.2 Resource Dependency Theory**

Resource dependency theory (RDT) can be traced back to Emerson’s (1963) theory of power dependence and Thompson’s (1967) theory on inter-organisational interdependence. The two theories were combined and further progressed by Pfeffer and Salancik in 1978 to develop RDT. The theory provides not only an explanation of why IJVs are formed, but also why control is needed by parent firms (Yan and Gray 2001; Le 2009). RDT is appropriate for examining IJVs because parent firms use IJVs to access valuable resources that they do not own (Chen and Chen 2003). The theory helps researchers and practitioners to gain a better understanding of the external environment and how to manage dependency and power in an organisation.

RDT proposed that control over scarce critical resources by one firm can make the other firm dependent on the resources and associated uncertainties in the environment (Hillman et al. 2009). Therefore, by controlling resources, a firm can minimise their dependence on other firms and maximise the dependence of other firms on the resources as well (Pfeffer and Salancik 1978; Yan and Gray 2001). RDT views IJV as a strategy that helps firms to cope with the interdependence as the parent firms

combine resources in order to gain competitive advantage. IJVs are characterised as an open system that is dependent on contingencies in the external environment (Fadare 2013). Each partner gains access to complementary resources based on their contribution because, for both the foreign and the local partner to survive in a competitive environment, they have to depend on each other (Le 2009). Deitz et al. (2010) views resource complementarity as the degree to which parent firms in an IJV can eliminate the weaknesses in each other's limited resource portfolio, support the other partner and together reach their set goals. This enables firms to gain either full or partial absorption of interdependence and reduce uncertainty (Hillman et al. 2009; Davis and Cobb 2010). Thus, the necessity and availability of the resources determine the nature and extent of organisational dependency on the environment.

In IJVs, possession of critical resources and the presence of alternatives constitute bargaining power (Yan and Gray 1994; Inkpen and Beamish 1997). The resources that the parent firms contribute give them the bargaining power to control the activities in the IJVs. In other words, parent firms that contribute unique or significant resources to the IJV, will be in a better position to control the strategic and operational activities in the IJV (Hillman et al. 2009). Also, the more dependent a firm is on the contributions of its JV partners, the lower its bargaining power in the IJV and the less its control in the IJV (Yan and Gray 1994). Child et al. (2005) argued that IJV partners stress the need to control and protect the resources they contribute. The control structure of an IJV can be seen as the result of negotiations between IJV parent firms and as such, the reflection of the partners' respective bargaining power. In the same vein, Zhang and Li's (2001) study highlighted that IJV control structure will change as one parent's dependence on the other parent's resources changes over time. Therefore, the relative bargaining power of parent firms is determined by who brings what and how much, to the venture (Harrigan and Newman 1990; Yan and Gray 1994). The power that comes from controlling the resources of the dependent party can increase the bargaining power of the controlling party, thereby, allowing it to

negotiate greater control over the IJV activities (Mjoen and Tallman 1997). Delios and Beamish (1999) revealed that foreign firms gain access to complementary resources and this helps reduce the uncertainty that they may confront. The division of equity in IJVs may reflect this need for complementary assets: the greater the need, the lower the foreign ownership. The government in emerging economies control majority of the critical resources needed by the foreign parent firm, thus, RDT provides a suitable lens for analysing government involvement in the design of IJV control mechanism (Mohr et al. 2016).

Despite the status and the level of importance of RDT, it has some limitations. The organisation is considered to be an open system that interacts with the external environment (Fadare 2013). The theory focuses on the external environment and pays less attention to the internal environment. Johnson (1995) argued that RDT does not clearly define the relationship between the environment and the organisation. In the same vein, Rosenzweig and Singh (1991) stated that “rarely, have these avenues of research considered explicitly the relation between national boundaries and the boundaries of organisational environments” (p. 341). The theory lays more emphasis on the resources contributed by the parent firms and the bargaining power of the parent firms, thereby ignoring the other factors that might exist (Vermeulen and Barkema 2001). Furthermore, there are three dimensions of control, and they are control mechanism, the extent of control and focus of control (Geringer and Herbert 1989), but based on the assumptions of RDT, the theory focuses on the focus and extent of control (Le 2009).

### **2.4.3 Social Exchange Theory**

Social exchange theory (SET) was developed by Blau (1964) and further progressed by various scholars, such as Gulati (1995), Parkhe (1998), Das and Teng (2002) and Globerman and Nielsen (2007). SET is becoming a popular theory as it does not only characterise the IJV relationships, but it

also explains the control system of the IJVs. The theory has been extended to explain the management of IJVs (i.e. trust as an important governance mechanism) (e.g. Das and Teng 2002; Lin and Wang 2008; Khalid and Ali 2016). Despite its growing popularity, the use of SET theory has been limitedly in the study of IJV control design.

According to Blau (1964), social exchange is viewed as, "voluntary actions of individuals that are motivated by the returns they are expected to bring and typically do in fact bring from others" (p. 91). The theory analyses people's behaviour in terms of resource exchange and how they manage the resources. In IJVs, parent firms exchange resources that they need, and the inter-partner relationships in JVs get help in managing the resources because the exchanges are embedded in strong ties (Das and Teng 2002). Therefore, social exchange exist in IJVs as firms transact on the basis of trust and its sources (Ali and Larimo 2011).

The fundamental principle of SET is trust, and it serves as a backbone of inter-personal and inter-organisational relationships (Kwon 2008; Dyer and Chu 2011). The logic behind the theory is that "self-interested actors need trust to get involved in a reciprocal exchange of needed resources, and this trust is further promoted when reciprocal exchange becomes ongoing" (Blau 1964:4). Hence, trust is a key characteristic of social exchange, as it possesses certain features relevant for a stable relationship to exist between parent firms. It acts as a bond between IJV partners in managing IJV relationships (Das and Teng 2002; Palmatier et al. 2007; Khorassami et al. 2011). Trust is developed as a social connection in inter-partner relationships and functions to keep the IJV parent firms together (Ali and Larimo 2016). Madhok (2006) defines trust as the most important factor to hold an inter-partner relationship together. Scholars, such as Kwon (2008), argued that mutual trust between parent firms prevents opportunistic behaviour thereby reducing transaction costs. In the same vein, Das and Teng (2002) and Khorassani et al. (2011) suggested that trust in IJVs helps to reduce the cost of writing and policing contracts but it also motivates parent firms to continue to cooperate when facing ambiguity and doubts. According to Voss et al.

(2006), trust is a key factor that influences quality information exchange and this leads to more open intellectual capital between parent firms; therefore trust facilitates confidential information sharing.

The social conditions that promote trust include fairness, flexibility and two-way communication (Ali and Larimo 2011). Fairness indicates that everything, including risk and benefits, should be equally and justly shared between partners so that they can retain a long-term relationship. Flexibility is also important because both parties should be ready for changes and able to adapt to new situations (Kwon 2008).

Communication is key to managing inter-partner relationship and it causes trust building, since it involves a formal and informal way of sharing meaningful, important and timely information between parent firms (Silva et al. 2012). Open communication and interaction between parent firms, results in trustful orientation and also improves knowledge sharing between the partners (Morris and Cadogan 2001). In IJVs, two-way communication between the parent firms is needed for the parties involved to have a better understanding between themselves. Accuracy, application and timeliness of information are often more important than quantity and regularity, as this will ensure prompt decision making in IJV (Kwon 2008). Also, well-established communications between the IJV parent firms makes it easier to identify values, norms and expectations (Deeds and Hill 1998). In the case of IJV, parent firms tend to have different cultures, values and norms; Johnson et al. (1996) suggested that the awareness a firm acquires of the existing cultural dissimilarities between the firm and its IJV partners, and how the differences are adopted, will enhance communication and trust between IJV partners. IJV managers instil organisational culture in their employees through formal and informal communication (Forcadell and Guadillas 2002). Hales (1993) found that the use of social control in IJVs is influenced by the national culture of the parent firms.

Social exchange is integral to IJV control because IJV agreements represent incomplete contracts that do not specify every detail of the relationship. Due



to the nature of IJV, which involves a working relationship, it is virtually impossible to include every aspect of the relationship in the contract. Much will be left out of the contract, especially the dynamic interaction between the parent firms (Das and Teng 2002). Trust does not only reduce the cost of writing and policing contracts, but it also motivates partners to stick together when facing doubts (Khorassani et al. 2011). Poppo and Zenger's (2002) study showed that trust does replace contract, but it plays a complementary role in IJV management. Inkpen and Currall (1998) argued that IJV trust is a social property of the IJV relationship that provides the social glue within which economic exchange occurs. However, the social exchange that occurs in IJVs is less formal, and it is contingent on the positive and reinforcing behaviour of the parent firms (Larson 1992; Ali and Larimo 2016). Hence, with the presence of trust between IJV parent firms, each partner shares critical information and exerts efforts to understand other partners' business, which will reduce conflict (Kwon 2008). Ring and van de Ven (1994) highlighted that social exchanges that take place in IJVs enable the partners to observe the actions of other parties and adjust their actions accordingly. Therefore, over time, a bond will be developed, which is essential for the success of any IJV. If the parent firms do not trust each other, they would not feel safe about exposing their sensitive information, contributing the best personnel, making a long-term commitment and bypassing rigid control mechanisms (Das and Teng 2002).

Scholars argued that trust increases cooperation and the quality of relationships (Arino and Ring 2001), improves flexibility (Young-Ybarra and Wiersema 1999), lowers transaction costs (Zaheer et al. 1998; Dyer and Chu 2003), reduces conflicts (Zaheer et al. 1998), facilitates learning (Nielsen and Nielsen 2009) and improves IJV performance (Nielsen 2007; Kwoon 2008; Silva et al. 2012). Therefore, in order for the parent firms to prove that they are trustworthy, exchange parties will regularly discharge their obligations and invest in the relationship to show their commitment to the relationship (Lambe et al. 2001). Thus, according to SET, trust derived from social interaction and socially embedded relationships is an effective instrument

used to control and monitor IJV activities (Faems et al. 2008; Huang et al. 2014).

Despite previous studies showing the use of SET in the study of IJV control SET theory has its shortcomings. It focuses on the importance of trust between IJV parent firms and the management of the IJV relationship, but treats the structural characteristics of IJV (Ali 2013) as background not key factors.

#### **2.4.4 Organisational Learning**

Organisational learning theory is an important theory used in the IJV literature to explain knowledge acquisition and transfer (Guidice 2001). According to Fiol and Lyles (1985), organisational learning involves "the development of insights, knowledge, and associations between past actions, the effectiveness of those actions, and future actions" (p. 811). Huber (1991) argued that organisations learn if any of the units acquire knowledge that is recognised as potentially useful. Hence, the core of organisational learning is the process of understanding and gaining new insights (Easterby-Smith et al. 2000; Berrell 2002).

According to Child and Yan (2003), there are three aspects of learning in IJVs, and they are learning at the IJV formation stage, learning from experience and operational learning. Formation stage learning takes place when the parent firms seek and negotiate terms of the IJV with new and potential partners (Brouther and Bamossy 2006). Scholars such as Inkpen and Currall (2004) and Duso et al. (2010) highlighted that knowledge acquisition is one of the most popular motives of IJV formation. IJV is considered as a vehicle used to acquire knowledge, learn new skills, and learn about new markets; and this is due to the differences in the skills/resources and complementary features that the parent firms may have. The differences drive the parent firms to learn about each other in order to achieve their strategic and operational goals (Fryxell et al. 2002; Luo 2002; Dai 2010).

Learning from experience involves the parent firms transferring relevant knowledge from their previous experience of IJVs. Parent firms acquire learning through two sources: they can learn by experience by analysing past successes and failures and incorporating that knowledge into future decision making and developments. Secondly, parent firms also learn from other companies by observing, mimicking or copying successful practices used in other firms (Miner and Mezias 1996; Yan and Child 2003). Furthermore, operational learning involves both parent learning how to work effectively and efficiently in an IJV (Yan and Child 2003). Learning also depends on the willingness of one parent firm to transfer knowledge and the intent of the other partner to learn. Learning does not involve a random process, but it takes place by design, and it involves a careful attention of the party that is learning (Brouther and Bamossy 2006; Park et al. 2015).

Knowledge shared in IJVs could be explicit and tacit knowledge in nature. Inkpen and Dinur (1998) argued that the most valuable knowledge required in organisations is tacit knowledge, and thus it is not easy to master and transfer. The learning processes in IJVs are more complicated because tacit knowledge is generally included in the daily operation of the IJV; however, the accumulation of such knowledge increases as time goes on. Tacit knowledge is hard to document and not easily transferable, which makes it difficult to exchange across parent firms (Luo 2002; Turner and Makhija 2006; Duso et al. 2010).

The transfer of knowledge within the IJV requires a control mechanism that is suited to specific characteristics of the knowledge each parent firm seeks (Makhija and Ganesh 1997; Lyles and Salk 2006). Long-term interaction between IJV partners and the IJV managers is the best way to acquire a higher level of tacit knowledge. The longevity of the IJV plays a vital role in the acquisition and transfer of knowledge to the employees of the IJV and the parent firms. Lee et al. (2011) highlighted that the more uncertain and less organizationally embedded the information, the more informal the controls will be in the venture. Chen et al. (2009) suggest that the resources that are contributed by the foreign parent firms play a role in the exercise of social

control. Their study stressed that the more the tacit knowledge and intangible the contribution of the resources are, the more likely that parent firms will exercise social control.

#### **2.4.6 Institutional Theory**

Institutional theory is widely accepted as it focuses on legitimacy and isomorphism (Scott 2008). It emphasises the need for firms to conform to the isomorphic pressures in the external environments in order to gain legitimacy (Scott 1987). The theory sees parent firms' competitive advantage based on a certain level of legitimacy in their markets, which is important for accessing critical resources for survival and growth (Zimmerman and Zeitz 2002).

The institutions encompass regulation, cultural, financial and legal systems, that have established rules by which the key actors interact when negotiating and formalising contracts (North 1990). Hence, IJVs are often formed to comply with host government equity control laws for foreign firms (Glaister and Wang 1993). Local parent firms provide knowledge about the host country regulatory frameworks and therefore mitigate the liability of foreignness (Zaheer 1995). This knowledge may be used to comply with host country regulations, such as local content law and free zone regulations. However, legal system incompleteness is not the sole dimension of an institutional environment.

The institutional environment influencing contractual design is multifaceted. Oxley (1999) highlighted that laws influence control choice. Levy and Spiller (1994) suggested that political institutions also influence regulatory processes, economic conditions, and determine which institutional endowments can affect firm behaviour. IJV parent firms that face an unfamiliar institutional environment are exposed to higher information asymmetries, lower propensity to build trust, higher transaction costs and additional coordination costs between IJV partners (Mahoney 1992; North 2005). The difference in institutional environments necessitates learning about the new environments (Benito and Gripsrud 1992). Parent firms that lack legitimacy may be denied access to resources (Dacin et al. 2007). IJV activities face greater transaction costs (Williamson 1991) and autonomous

parent firms have stronger incentives to default (Buckley and Casson 1988). These difficulties necessitate a better alignment between environmental dynamics and contractual design. Furthermore, institutional theory suggests that ownership may be a means of conforming to the institutional environment. Firms face the dual pressure of conformity: to the national environment of the host country, and also to the organisational practices within the multinational enterprise (Rosenzweig and Singh 1991; Yiu and Makino 2002). Scholars, such as Oxley (1997) and Luo and Peng (1999), suggested that institutional environment volatility is common in many EMs and these characteristics make an EM fertile ground for exploring the various factors that influence IJV control design.

#### **2.4.5 Integration of the Theory**

Previous studies have shown the importance of various theories explained above in relation to IJV. Osborn and Hagedoorn's (1977) study highlighted that using different approaches to describe IJV behaviours is important because each theory considers different aspect of IJV control. However, Mjoen and Tallman (1997) proposed a combination of theories in the study of IJV control. Coinciding with this view, Parkhe (1996) highlighted that "while each theory provides a useful lens, no theory alone is sufficient to encompass the complexity of JVs" (p. 451). This is because each theory has its limitations, and the use of a single theory in previous studies about IJV control produced conflicting results. Thus, a combination of insights from multiple theories to enhance better understanding of IJV control design is necessary (e.g. Yan and Gray 1994, Mjoen and Tallman 1997; Kogut 2002; Le 2009). The main aim of this study is to explore the various factors that influence IJV control design and how the factors interact with each other. For this purpose, insights from the TCT, RDT, SET, institutional theory and organisational learning perspective will help to explain the IJV control design.

Comparing these theories may be particularly productive in offering insights into IJV control design. It will allow the researcher to explore how the external environment of the IJV, the relationship between the parent firms and the IJV

and the internal environment of the IJV, influences IJV control design. Therefore, a synthesised approach may strategically offer fresh insight into how the individual or combination of organisational, relational and external interacting factors facilitate the use of specific controls. The use of these theories is because the TCT focuses on the nature of the transaction in the IJV. It helps to explain IJV contracts (bounded rationality), and the factors that influence contract design, which includes asset specificity, frequency and uncertainty (internal and external) (Luo 2005). RDT helps to explain the capabilities of the parent firms to exercise control in IJVs, and provides an explanation of the resource contribution of the parent firms, the bargaining power each partner and the external environment has in IJVs. This theory emphasises the significant role of parent firms' resource alignment (Chen and Chen 2003). On the other hand, SET helps to explain the need for trust and commitment between parent firms and how two-way communication can be used to achieve it. In respect to organisational learning perspectives, the theory focuses on the tacit and explicit knowledge transfer and acquisition in IJV and the use of specific control mechanism to achieve this IJV aim (Lee et al. 2011). Finally, institutional theory focuses on the institutions and legitimacy of the parent firms, which in turn affect parent firms' bargaining power and their approaches in managing the IJV.

## **2.5 Factors Influencing IJV control**

IJV control constitutes an important stream in the broader IJV literature (Talay and Cavusgil 2009; Hennart 2010; Owens et al. 2013; Khalid and Ali 2017). Prior research is heavily influenced by transaction cost theory (TCT), resource dependency theory (RDT), social exchange theory (SET), institutional theory, organisational theory and contingency theory (Brannen and Salk 2000; Yiu and Makino 2002; Brouthers and Hennart 2007; Hillman et al. 2009; Khalid and Ali 2017; Piaskowska et al. 2019). Table 2.2 below shows a summary of the factors from these theoretical perspectives.

**Table 2.2: Summary of Theories and the Factors**

<b>Theories</b>	<b>Specific Factors</b>
Transaction Cost Theory	<ul style="list-style-type: none"><li>• Asset specificity (physical, procedural, human and dedicated assets).</li><li>• Frequency</li><li>• Uncertainty (internal and external)</li></ul>
Resource Dependency Theory	<ul style="list-style-type: none"><li>• Resource contribution</li><li>• Bargaining power</li><li>• Dependency and interdependency</li><li>• External environment</li></ul>
Social Exchange Theory	<ul style="list-style-type: none"><li>• Trust</li></ul>
Organisational Learning Theory	<ul style="list-style-type: none"><li>• Knowledge transfer</li><li>• Knowledge acquisition</li></ul>
Institutional Theory	<ul style="list-style-type: none"><li>• Legitimacy issues</li><li>• Cultural distance</li></ul>

The decision of parent firms to adopt a control mechanism is influenced by factors that might be present in the dynamic external surroundings, from the IJV itself or the IJV relationship (Kamminga and Van der Meer-Koistra 2015). This literature review has identified a number of factors that influence IJV control design, however, given that the factors that influence control design are potentially extensive, this section does not attempt to exhaust all of them. Instead, with the guidance of the literature, specific factors relevant to this research are given prominence.

Previous studies have argued that the evolution and design of an IJV control system is dependent on the external and internal environment (Yan and Zeng 1999; Nielsen 2007). For example, Yan and Gray (2001) suggested that the performance of the IJV could trigger a change or shift in the control structure of the IJV. Zhang and Li (2001) investigated the dynamic relationship between control design and performance and their study focused on the parent firms' formal strategic control over the IJV. The findings from

the study suggested that the IJV control design tends to evolve along a continuum towards independence and better performance. It also indicated that during the evolution process, IJV performance becomes a motivating force to stimulate the evolution of the control design. In the same vein, Le's (2009) study on the IJV control dynamics literature showed that when a foreign parent firm exercise broad, tight and formal control at the formation stage, this leads to better performance in the IJV. Also, when IJV performance is positive at the formation stage, the foreign partner will tend to exercise social control, narrow and loose control over their IJVs at the post-formation stage. Le (2009) suggested that although performance is the main motive driving IJV control change, other factors trigger change and these factors are worthy of investigation. An EM IJV, which operates in a highly complex and dynamic environment such as Nigeria, may tend to be more vulnerable to external and internal factors; therefore, these factors might become a threat to the IJV control system (Wang et al. 1999; Yang 2003). Li et al.'s (2013) study on the characteristics and dynamics of management control in IJVs, showed that parents may adjust the extent of control over specific activities, or the tightness of a control mechanism, to reflect environmental changes without unsettling their overall control structure; thus, a balance between stability and change is achieved at the post-formation stage.

According to Yan and Luo (2001), unexpected contingencies, undesirable venture performance, obsolescing bargain with the local parties and inter-partner competitive learning, influenced the structural changes in IJVs. Zhang and Li (2001) investigated the dynamic relationship between control design and performance, focusing on the parent firms' formal strategic control over the IJV. The findings from the study suggested that control design of an IJV tends to evolve along a continuum towards independence and better performance. It also revealed that during the evolution process, IJV performance becomes a motivating force to stimulate the evolution of the control design. Coinciding with this view, Yan and Gray (2001) and Le (2009) stated that performance is the main motivating factor driving IJV control. However, Chen (2004) highlighted that parent firm intention, resource



commitment, general competence, partner's trust, goal incongruence, IJV life stage, and market growth, play a significant role in influencing the control design. Kamminga and Van der Meer-Kooistra (2007) examined management control patterns in IJV relationships, and their findings revealed that control pattern is influenced by parental differences, information asymmetry, trust, bargaining power, asset specificity, uncertainty, frequency and government regulations.

Furthermore, Hoetker and Mellewight (2009) and Chen et al. (2009) argued that knowledge-based and property-based assets in the IJV play a role in determining the factor that triggers the change in a control system. Chen et al. (2009) studied IJVs in China, and the findings revealed that a property-based resource is linked with output and process control, while knowledge-based resources contributed by the parent firms is related to process and social control. Li et al. (2013) studied the characteristics and dynamics of management control in IJVs, and the findings highlighted that parent firms adjust the extent of control over specific activities or the tightness of a control mechanism to reflect environmental changes without unsettling their overall control structure; thus, a balance between stability and change is achieved at the post-formation stage. A more recent study on IJV control design by Kamminga and Van der Meer-Kooistra (2015), examined joint venture dynamics; the study showed that the antecedents within the parent firms, within the JV relationship, in the environment of the JV relationship and the environment of the parent company, influences the IJV dynamics. Other factors that have been identified by previous studies are further explained below.

### **Parental Differences**

Prior international business literature classifies parental differences into differences in the motivation for forming the IJV, differences in parent characteristics, management style, and national culture (Li et al. 2002; Kamminga and Van der Meer-Kooistra 2007). In the same vein, parent firms have different objectives when entering into IJV, as mentioned in section

2.2.1. Calantone and Zhoa (2001) argued that the objective of the formation of the IJV by the parent firms determines the adoption of controls used in the venture. Also, when the differences in management style and national culture are significant, these often result in conflicting and opportunistic behaviour between the parent firms, thereby leading to misunderstandings and interaction problems. Hence, parent firms deal with the differences by eliminating them, by changing the initial control strategies that they adopted and introducing new ones that will fit with the new condition of the IJV (Kamminga and Van der Meer-Kooistra 2007).

### **Information Asymmetry**

Kamminga and Van der Meer-Kooistra's (2007) study revealed that parental differences lead to information asymmetry, and this may complicate the IJV control system. Information asymmetry involves one partner having more or better information or knowledge than the other partner. Yan and Child (2004) argued that information asymmetry exists in all exchange relationships and are more pronounced in an IJV because each partner contributes different resources and perspectives, and also have different priorities. The physical distance between the parent firms and the IJV, the difference in knowledge and expertise, and the cultural distance could lead to information asymmetry. In cases where the flow of information is one-sided, this creates an imbalance in the control system (Huang et al. 2015). Therefore, the exchange of information or transfer of knowledge is expected to be a significant predictor of the control mechanism that is adopted in an IJV (Lambe et al. 2000).

### **Trust**

Trust plays a major role in the management of an inter-firm relationship such as IJV. Researchers, such as Uzzi (1997) and Li et al. (2009), argued that inter-firm trust is one of the foundations for the use of social control. Trust-building in IJVs requires a mutual understanding of the parent firms, and this can be developed over time between the partners (Inkpen and Currall 2004).

When the host parent firm is in an EM, which is known for market uncertainties and instabilities, trust-building with the local parent may not be as easy as expected (Young-Ybarra and Wiersema 1999; Das and Teng 2001; Luo 2005). Over time in the IJV, the parent firms and IJV managers learn about each other through the use of informal communication, socialisation and personal interaction (Ring and Van de Ven 1994; Uzzi 1997; Li et al. 2009). According to Dyer and Chu (2000), long-term interactions between partners help to gain an in-depth understanding of each other. This understanding is a primary basis for trust development, as it provides insight into the moral character of the partner. Therefore, as time goes on, they may begin to develop some level of trust between each other because, at the initial formation stage of the IJV, where there have been no prior interactions between the partners, trust may rarely exist (Das and Teng 1996; Inkpen and Currall 2004; Poppo et al. 2008).

### **Government Policies**

Government policies play a major role in the changes of IJV control structure. Das and Katayama (2003) identified a variety of government policies that can influence the control structure, such as investment incentives and partner requirements. Yan and Gray (1994) and Yan (1999) further pointed out that the unexpected changes in the host government's policies could change the resource dependence pattern and shift the partners' relative bargaining power. The unexpected change in government policies poses a political risk for the parent firms, and increases the unpredictability of the regulatory environment. In most EM, the interference is unexpected and complex, which makes it difficult for the parent firms to predict, verify and control (Luo 2005).

### **Economic Factors**

The most visible situation that leads to changes in control in a firm, is when there is a decline in the economy of the host country. The decline in the economy could be because of economic reform or exposure, which grows when the dependence on host country resources increases. IJV operations

are more susceptible to environmental hazards, such as foreign exchange fluctuations, industrial regulation, and foreign investment control and market volatility (Yan 1999). Teece (1983) argued that the vulnerability to the economic changes increases the need for internal control and managerial discretion. When control is tightened and the strategy does not provide a positive impact on the IJV, this may lead to replacement or changing of the IJV managers and employees (Parkhe 1993; Luo 2005). The change in control structure is a symbolic reaction to economic decline, at both the societal and organisational level as it is an attempt to counteract what is occurring in the economy so that it does not affect the performance of the firm.

Table 2.3 below summarises the main characteristics of the factors conceptualised in this study. The factors listed are not exhaustive.

**Table 2.3: Factors influencing IJV Control Design**

Factors	Characteristics
Organisational Factors	<ul style="list-style-type: none"> <li>• Resource contribution</li> <li>• Asset specificity</li> <li>• Bargaining power</li> <li>• Dependency and interdependency</li> <li>• Leadership</li> <li>• Task complexity</li> </ul>
Relational Factors	<ul style="list-style-type: none"> <li>• Prior experience</li> <li>• Trust</li> <li>• Knowledge acquisition/transfer</li> <li>• Performance</li> <li>• Parental differences</li> <li>• Commitment</li> </ul>

External factor	<ul style="list-style-type: none"> <li>• Government regulations</li> <li>• Economic factor</li> <li>• Legitimacy issues</li> <li>• National culture</li> <li>• Isomorphism</li> <li>• Cultural distance</li> <li>• Technology</li> </ul>
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## 2.6 Summary and Gaps

Based on the literature review, previous research has tended to focus on the general control system with no clear explanation of how specific controls, such as training, meetings and communications, are designed and the role of organisational and other factors in this process. Chen et al. (2009) suggested that there is a need for scholars to examine a specific control mechanism, as this will enable the IJV managers and parent firms to identify how a specific control mechanism is designed.

Furthermore, IJV control has been carried out from a static point of view, ignoring the antecedents in the IJV that may change due to uncertainty. Hence, Kogut (1988) stated that “no matter what the initial agreement on control and ownership may have been at the start of the venture, environmental change over time may shift the relative bargaining power among partners” (p. 45). This is in line with Lorange’s (1997) study, which argued that an IJV evolves over time and therefore, the balance of a parent firm’s control should be shifted accordingly without ignoring any factor that may be present in the environment. Lee et al. (1998) suggested that the parent firms need to adopt a flexible mindset in the IJV. Scholars such as Yan and Gray (1994), and Kaminga and Van der Meer-Kooistra (2007) called for more research into the dynamic development of the IJV control system. In the same vein, Zhang and Li (2001) concluded that, “How control design of IJVs evolves over time remains unclear” (p. 342). Dekker (2004) requested for a more detailed investigation of how and why control is designed. In addition, Le (2009) recommended that more studies should examine other

factors that influence control mechanism change. Chen et al. (2009) confirmed this recommendation by suggesting that it would be interesting to study how parent firms react to other organisational and contextual factors, and to explore the configuration of control exercised by both partners, as this would provide an integrative perspective of the IJV control system. These recommendations influenced the emergence of this study of IJV control design from the foreign, local parent firm and the IJV perspective.

## CHAPTER 3

### METHODOLOGY

#### 3.0 Introduction

The purpose of this chapter is to present the research design and demonstrate the methods used in this thesis. The objective of this thesis is to explore the factors that impinge on the choices and design of an emerging market IJV control mechanism. To accomplish this, the chapter starts by discussing the philosophical stance. Next, it provides the research plan, design, data collection and analysis. Then, the chapter provides an appraisal of the reliability, validity and a reflection of the research process while making reference to ethical procedures that were followed.

#### 3.1 Research Philosophy

Among the issues that the researcher needed to consider at the beginning of the research was the philosophical aspects and questions that lurk behind every research method and methodological approach. In order to select the methodology that was most suitable for the study, the researcher became familiar with the basic concepts, traditions and positions related to the research phenomena. This is because all research methods are connected to research philosophy (Eriksson and Kovalainen 2015). The research philosophy that is adopted by a researcher contains important assumptions about how the researcher views the world. It involves the beliefs about the way data that is required for a study should be gathered, analysed and used (Bryman and Bell 2011). According to Easterby-Smith et al. (2002), there are three main reasons for considering research philosophy. First, it aids the methodology creation process, second, it helps in determining the methodology that is most effective and third, it helps the researcher create a methodology that is not within his/her immediate sphere of expertise.

International business scholars have various views guiding their research, with the most common being positivism and interpretivism (Yan and Gray 2001; Poppo and Zenger 2002; Le 2009; Huang et al. 2015; Nguyen et al.

2019). In positivist studies, the world is viewed as external and objective to the researcher, and also the social events and physical world are analogous (Ticehurst and Veal 2000). The positivist approach suggests that greater objectivity will be achieved through quantitative methods because it allows for the collection of objective data. However, the positivist believes that the researcher should not directly interact with the people that they are studying because they may influence their behaviour (Denzin and Lincoln 2000).

On the other hand, the interpretivist philosophy is concerned with how the social world is interpreted, understood, experienced or produced (Mason 2002). Interpretivism emphasises the need to understand peoples' understanding of situations in which they are involved and the meaning from their experiences (Kuada 2009). It generally describes the social world by offering a detailed account of specific social settings, processes or relationships (King and Horrocks 2010). It may also encourage personal involvement of the researcher and, as such, knowledge of a given phenomenon is dependent on the perspectives of respondents and the interaction between the respondent and the researcher (Cavana et al. 2001; Easterby-Smith et al. 2002). This requires the researcher to observe the research participants/respondents as they engage in continuous interpretation, meaning creation and sense-making of events and their context. Therefore, based on its nature, interpretivism leans toward the collection of qualitative data in pursuit of knowledge (Kaplan and Maxwell 1994; Denzin and Lincoln 2000).

However, while interpretive research is recognised for its value in providing contextual depth, the findings are often criticised in terms of reliability, validity and generalisability (Perry 1998). Therefore, to avoid this philosophically driven criticism, various scholars have suggested the use of reflexivity, triangulation, peer review, member check and audit trail to address the issues (Creswell and Miller 2000; Coheb and Crabtree 2008; Yeasmin and Rahman 2012; Brit et al. 2016; Hadi and Closs 2016; Palaganas et al. 2017).

This research is grounded within an interpretivist paradigm, based on the following justifications. First, the researcher is interested in gaining an in-



depth understanding of a specific phenomenon, which involves the complex relationship between the parent firms that formed the IJV, and the exploration of the factors that influence the IJV control design. The IJV control entails decision-making by the parent firms and the IJV, which are influenced by each other and how they see the world, as they are also informed by the external environment where they exist (Mabry 2008; Chowdhury 2014).

Second, the interpretive approach allows the researcher to explore the complexity of human sense-making and uncover the meanings and actions that motivate the identification and the exploration of the factors that influence IJV control design. Therefore, it allows the researcher to diminish the distance between the parent firms, IJVs and the researcher (Mayer 2015).

Third, it combines the strength of the researcher and the respondent, thereby establishing a subjective parameter of success through direct contact with the individuals working within the foreign parent firm, local parent firm and the IJV (Ritchie and Lewis 2003). Finally, the paradigm is applicable to a small sample size, and this study adopts a single case approach (Kelliher 2005).

## **3.2 Research Approach**

### **3.2.1 Qualitative Method**

Qualitative research method takes a more interpretivist perspective, whereby the researcher sees the world from the point of view of the social actors. Qualitative researchers acknowledge that their views invariably influence their research, and that is the basis for the research results (Creswell 2007). As such, qualitative researchers rely on their beliefs and a variety of understandings in describing, interpreting and explaining phenomena of interest (Warfield 2010). Therefore, qualitative methodology recognises that the subjectivity of the researcher is intimately involved as they aim to understand the subjective experiences of those being studied and how they act in their natural contexts (Mars 2002; Johnson 2006). The concern of subjectivity in this study was overcome by reviewing the researchers' role

and the use of self-reflection (Cunliffe 2004; Palaganas et al. 2017). The researcher also used triangulation of the information by deploying multiple sources of evidence (Gaya and Smith 2016). This is further explained in section 3.7 and 3.8.

This research approach relies on the techniques that do not require the use of statistical data; instead, it uses audio-visual material, written texts and image data. This allows for the generation of rich and complex textual accounts about the experiences of people (Creswell 2003). Also, this is a research technique, in which the decision about the research design and strategies are on-going, and it is grounded on practices, processes and the context of the research (Mason 2002). Therefore, to examine the IJV control design and the factors that influence that design, this study adopted a qualitative method. The decision to adopt this technique is based on several reasons.

First, the use of qualitative research methods allows the researcher to gain an in-depth understanding of the subject matter, as suggested by Myers (2013). The topic of IJV control design and the interaction of respective factors is nascent; with limited studies in this area. Hence, this approach helps the researcher to gain an in-depth understanding of this emerging subject matter, such as EM IJV control. This is in accordance with the qualitative research perspective advocated by Johnson (1995), who stated that the advantage of using the qualitative method is “the ability of the researcher to engage in research that probes deeper understanding rather than examining the surface features” (p. 4). It is appropriate in the International Business (IB) field, as it helps “to discover new relationships or situations not previously conceived” (Daniel and Cannice 2004:186).

Second, although it has been pointed out that control design has been understudied, it is important to note that most of the research used quantitative approaches (e.g. Fryxell et al. 2002; Yan and Gray 2001; Chen et al. 2009; Lee et al. 2011; Liu et al. 2014; Piaskowska et al. 2017). The review of international management research by Werner (2002) showed that qualitative methods are not frequently used in IJV studies. This led to the call

by various scholars for more research using qualitative methodologies, which will help to facilitate an in-depth investigation and understanding of the phenomenon (Yan and Gray 1994; Yan and Zeng 1999). Consequently, with respect to IJV control research, Doz (2011) recommended a methodological adjustment based on the biases in IJV control research.

Third, a qualitative approach describes the complexity, breadth or range of occurrences. This is critical in this research as IJV control, and the interaction of organisational, relational and external factors occur in a dynamic nature, and as such, they cannot be fully captured using a quantitative approach because a typical quantitative approach using regression analysis techniques only provides a snapshot of the subject matter. Also, the casual relationships identified in such quantitative research are limited, as important contextual factors are ignored. Therefore, the use of a quantitative method is not suitable for this research, as its objectives will not be achieved (Miles and Huberman 1994). According to Mason (2002), qualitative research enables the generation of rich contextual and contextual data that provides a rounded understanding of the subject matter.

Fourth, the choice to use of qualitative methods is motivated by the exploratory nature of the research, which is aimed at filling the identified research gaps. This also allows the researcher to examine the phenomenon and flexibly create ideas to bridge the research gaps in the IJV control mechanism literature (see, Parkhe 1993; Werner 2002; Doz 2011). By so doing, the researcher will be able to gain a rich and in-depth account, which illuminates the motivations that connects attitudes, actions, processes and behaviour in individuals or organisations (Ritchie 2003; Sekaran 2005).

The fifth point is that qualitative research designs are suitable for studies where local grounding is essential, as it will involve an intense or prolonged contact with the field or life situation. This method increases the understanding of the dynamics and outcomes of a collaborative relationship (Miles and Huberman 1994). In the case of this research, the local grounding involves a specific type of organisation, which is an IJV formed between two EM firms partially controlled by their respective country governments.

### **3.3 Research Design**

Although there are various justifications for adopting qualitative research, it is important to note that there are five areas of qualitative research and they are: case study, ethnography, phenomenology, grounded theory and content analysis (Maxwell 2008). Based on the research questions stated previously, the researcher considered the case study method as the most suitable technique to adopt for this study. Therefore, the discussion in this section is limited to the case study design.

#### **3.3.1 Case Study Approach**

Research question plays a significant role in choosing the appropriate method to be used in any study. According to Dul and Hak (2008), a case study is a “study in which (a) one case (single case study) or a small number of cases (comparative case study) in their real-life context are selected, and (b) scores obtained from these cases are analysed in a qualitative manner” (p. 4). Yin (1994) argued that a case study approach is appropriate for research that aims to address “why” and “how” type questions. The role of case study research is classified into four categories, and they are explorative, theory testing, theory building, or theory extending (Voss et al. 2002). Similarly, Yin (1994) argued that a case study design can be used for investigatory, confirmatory, explanatory or exploratory research questions. Yin (1994) also points out that any finding or conclusion in a case study is likely to be, “much more convincing and accurate if it is based on a combined source of evidence while shifting between analysis and interpretation” (p. 92). With respect to international business research, Marschan-Piekkari and Welch (2004) asserted that the field has seen a growing interest in the use of the case study approach as a powerful means for investigating complex phenomena.

The selection of a specific type of case study design is guided by the overall purpose of the study. The purpose of this study is to explore EM IJV control design that has some level of both host country and foreign government involvement in the IJV. Stake (1995) identifies case studies as intrinsic,

instrumental or collective. Following the aims of this study, an intrinsic case study approach was adopted as, “we are interested in it not because by studying it we learn about other cases or some general problem, but because we need to learn about that particular case” (ibid. p. 3). However, Feagin et al. (1991) asserted that “irrespective of the type, purpose, unit of analysis, or design, rigour is a central concern in case study research” (p. 7). In regards to this study, the researcher took into consideration rigour and this is further explained in section 3.7.

An intrinsic case study approach is used in this research for several reasons. First, because of its uniqueness and that the case itself is of interest, as the research aims to solve a specific problem of the individual case. This allows the researcher to gain an in-depth understanding of the IJV in all its particularity and ordinariness (Stake 2003). This approach places an emphasis on the exploration of this particular IJV, its context and the experiences of its participants. It allows the researcher to examine the IJV control design in the specific IJV; thus, the findings from this study are unlikely to be generalisable (Stake 1995). A case study approach was particularly useful in investigating different types of IJV control mechanism (Marshall and Rossman 2014), and is consistent with the technique suggested in Ghauri (2004) book titled “Designing and conducting case studies in International Business Research”.

Second, it is an approach that allows the researcher to use a variety of evidence from different data sources to effectively handle the dominant case, which is most important in this research. It allows for some form of flexibility in the data sources, which helps to improve the quality and validation of data through triangulation (Patton 2005). Also, flexibility helps the researcher to introduce new and unexpected results (Vissak 2010).

Third, it allows for an in-depth exploration of the chosen case (Denzin and Lincoln 1994; Yin 2003). In this study, this approach enables the researcher to deal with the intricacies of a complex organisation. The researcher is able to step back and examine the collaborative relationship from the perspective of the foreign partner, local partner and the IJV.

### **3.3.2 Single Case Study Design**

This study used one IJV in Nigeria and as already acknowledged, collecting and analysing data from one case may be a risky option for business and management research (Remenyi et al. 1998; Yin 2003). The risk includes concerns about the representativeness of the chosen case, the extent to which generalisability is possible and the tendency for the collection or analysis of data to be biased by the researcher's preconceived opinions (Rose et al. 2015). This method has been subjected to a number of criticisms, the most common of which concerns the inter-related issues of methodological rigour (Tellis 1997; Zeev Maoz 2002; Yin 2009; Bennett and Elman 2010), researcher subjectivity (Verschuren 2003; Flybjerg 2006), generalisation (Yin 1994) and external validity (King et al. 1997). To solve this problem, Weick (1979) suggests that researchers should "try harder to make interpretations specific to situations" (p. 37). The researcher considered the limitations of this method throughout the research process, and this is explained in section 3.7 and 3.8.

Although the use of a single case is risky, it is pertinent to note that it has many benefits. This method requires a detailed description and analysis in order to gain a better understanding of "how" and "why" things happen (Ridder 2017). Fiss (2009), states that it allows the researcher to open a black box by looking more in-depth at the causes of the phenomenon. This ultimately helps the researcher gain an in-depth understanding of the complex phenomenon from the perspective of the parent firms and the IJV (Ozcan et al. 2017).

The decision to use a single case study approach is because the selected case represents an extremely unique case worth examining and analysing (Yin 1994; Patton 2005; Stake 2005). It involves an IJV where both the local and the foreign partners are from an EM, the foreign partner is made up of four companies that formed a consortium, while the local partner is made up of two government agencies that formed a company and finally, there is both foreign and local parent firm government involvement in the IJV. Therefore, this has helped the researcher gain an understanding of a phenomenon that hasn't received much attention from international business scholars.

Another reason for using a single case study approach, is to examine a phenomenon at a fine-grained level of detail that cannot be achieved through a multiple case study approach, or other methods such as large sample statistical studies (Ozcan et al. 2017). The single case is ideal for investigating a complex social process in IJV control design as it includes both formal control and social control, and it also involves the foreign parent firm, the local parent firm and the IJV (Arino and Ring 2010). Therefore, it allows for the use of the inter-organisational level as the primary unit of analysis.

Furthermore, the single case study approach allows the researcher to get a better understanding of the social research setting by being as close as possible to the world of the parent firms and the IJV itself and interpreting this world from the inside (Yin 1994; Walsham 1995). This method helps the researcher gain a vivid experience of the research, which may not be achieved with other research methods (Yin 1994).

### **3.3.3 Case Selection**

Sampling involves choosing a portion of a population that has specific characteristics and is of interest to the researcher. Saunders et al. (2011) suggested that the sample size used in any research is dependent on the objectives and research questions, highlighting their importance in the sample selection. Due to the nature of this research, the case was chosen using a purposive sampling technique (Piekkari et al. 2010).

Purposive sampling involves the researcher conforming to specific criteria or focusing on particular characteristics that are of interest to the study (Cooper and Schindler 2008). The researcher looked for specific characteristics aimed at providing a thick description with the opportunity to learn about the subject matter. The case was pre-selected not because it is a representation of other cases, but because of its uniqueness, which was of interest to the researcher (Stake 2005; Crowe et al. 2011).

Another reason for using this sampling technique is based on the recommendation made by Ishak and Bakar (2014), that purposive sampling is one of the most acceptable sampling procedures for qualitative research, especially when it involves selecting participants for specific situations. This enables the researcher to select a specific IJV in Nigeria that has a foreign partner from an EM and also managers that will provide rich information for the study (Sekaran and Bougie 2009). The participants were recruited based on their knowledge and their role in the IJV.

### **Criteria for Case Selection**

The following criteria were used to select the case in this study:

- (i) The case is an IJV in an EM with Nigeria as the primary focus
- (ii) Both the foreign and local parent firms are from an EM
- (iii) The IJV is equity-based
- (iv) The case is not limited to a particular industry
- (v) The IJVs must be at the post-formation stage of their lifecycle
- (vi) The IJV must have been in existence for at least five years
- (vii) The IJV is limited to two partners
- (viii) There is both foreign and local government involvement in the IJV
- (ix) The parent firms must have some level of influence in the IJV
- (x) The foreign partner is made up of a consortium of companies, and the local partner is made up of a company formed by two local government agencies
- (xi) The participants must be willing to take part in the research

First, both parent firms are from EMs, and the IJV is operating in Nigeria. Following the definition of EMs by Rahman and Bhattacharyya (2003), an EM is viewed as an economy that is experiencing rapid growth in their national economy, with a structurally changing industry and regulatory framework, promising but volatile market and adopts a free-market system. In the case of this research, Nigeria fulfils the EM characteristics/conditions. Therefore, based on the characteristics of weak regulatory infrastructure, IJV managers and parent firms rely heavily on interpersonal networks, social capital and



informal institutions as substitutes for a weak market structure (Peng and Luo 2000). Despite the importance of formal control identified by various scholars, the critical assumption underlying the emergence of social control is that the emphasis of formal contracts lies on the completeness of the legal system, but EMs are known for weak legal institutions (North 1990, 1997; Dyer and Singh 1998; Zhou and Xu 2012).

Furthermore, IJVs in Nigeria have rarely been studied as most of the IJV studies focus on other EMs, such as China and India (Zhang 2001; Le 2009). This leads to the issue of the lack of IJV research practices in Nigeria, which makes accessing information a daunting task. Another important and practical factor involves access to research participants. Gaining access to the informant is one of the key issues that must be taken into consideration because without access, there will not be any data. Hence the researcher selected IJV in her home country – Nigeria where access to the IJV firm by the researcher will not be a major problem. Also, the decision to focus on IJV in Nigeria is due to convenience and limited resources.

Second, the time boundary and the stage of the lifecycle of the IJV are important criteria for the research. The IJV would have been in existence for a period of four years, i.e. at the post-formation stage of the venture. This is because IJV control design evolves over time. Shortell and Zajac (1988) maintained that an IJV formed three to four years previously would often be at its post-formation stage during which various control mechanisms have already been considered and introduced. The longevity factor helps increase the chances of exploring the various control mechanism used and the factors that influence them (de Man et al. 2010).

Third, the researcher did not limit the number of companies that make up both the foreign and local parent firms. Kamminga and Van der Meer-Kooistra (2007) recommended the study of unconventional types of IJV with more parent firms, as it the inter-organisational relationships are more complex to control. In this study, the foreign parent firm is made up of four

companies that formed a consortium, while the local parent firm is made up of two companies.

Finally, the parent firms must have some level of influence in the strategic and operational activities and processes of the IJV. With all the parent firms having some level of influence in the IJV, the researcher will be able to understand the dynamics of all the partners' perspective.

**Table 3.1: Case Characteristics**

<b>Characteristics</b>	<b>Lekki Free Zone Development Company</b>
<b>Partners</b>	Lekki Worldwide Investment Limited (Nigeria) and China-Africa Lekki Investment Ltd (China)
<b>Date of Establishment</b>	2006
<b>Equity Share</b>	60/40 with the foreign partner having the dominant stake
<b>Contractual Duration</b>	50
<b>Type of JV</b>	Equity-based
<b>Host Country</b>	Nigeria
<b>Ownership Structure</b>	Dominant
<b>Level of Involvement by both partners</b>	Active involvement by both partners
<b>Level of involvement of both the foreign and the local government I the IJV</b>	Active involvement by both the foreign and the local parent firm government
<b>Voting Right</b>	The foreign partner has majority voting right
<b>Participation in the research</b>	The foreign parent firm, the local parent firm and the IJV were willing to take part in the research

### **3.4 Research Logic-Inductive and Deductive Logic**

The logical arguments that guide the process of research enquiry are categorised as either deductive or inductive (Eisenhardt and Graebner 2007). With the deduction logic, the researcher starts with a premise that is

assumed to be true. Based on the initial assumption, deductive logic then tries to establish what else must also be true. Therefore, the findings and the conclusions are perceived as proven beyond doubt. However, the challenge facing this logic is that the initial premise must indeed be true. On the other hand, the inductive logic entails using theory to derive an explanation of the data. Hence with the inductive logic, the researcher begins with a piece of data and then searches for insights from the data. Thus the inductive logic can reveal and illustrate the theory that provides a logical explanation of the data (ibid).

As the essence of the current research is to explore and explain how the various IJV control mechanisms are designed, the research process entails blending of the inductive and deductive logic (Perry and Jensen 2001). At the initial stage of the study the researcher wanted to use a pure inductive logic, however, over time it became apparent that relying on this logic alone may deprive the study of the benefits of useful theoretical constructs and concepts in the IJV control literature. Also, extant literature was explicitly instrumental in providing a guide at the initial exploration of the study. More specifically, the combination of established frameworks from the literature and preliminary inductive phase of the investigation formed the basis on which the initial protocol for the interviews was constructed (Yeung 1997).

### **3.5 Data Generation**

Data collection is an essential component for conducting research, which could be a hard and complicated task to carry out (Kajornboon 2005). O'Leary's (2004) study indicates that, "collecting credible data is a tough task, and it is worth remembering that one method of data collection is not inherently better than another" (p. 150). Data collection involves two main approaches, primary and secondary data collection methods (Bryman 2008). For the purpose of this study, a multi-method data collection approach is used, and the data were collected from different sources. Yin (1989) argued that the application of multiple data sources is a requirement in case study research. The use of multiple methods of data collection helps to improve the

quality of the research as it allows for triangulation of the data. It helps to reduce the respondent bias, provides additional information, increases support for the researcher's conclusions, and leads to new questions that can be answered in later research (Tellis 1997; Eisenhardt and Graebner 2007; Vissak 2010).

### **3.5.1 Secondary Data Collection**

Secondary data are data collected by someone other than the person using the data (Miles and Huberman 1994). They are published (external) or unpublished (internal), and include newspaper clippings, status reports, media publications, annual reports, minutes from meetings, agendas, inter and joint memos (Myers 2013). For the purpose of this research, the secondary data that were collected are published data, including newspaper and magazine clippings, information from websites, company brochures and newsletters from the IJV, local and foreign parent firm, and information from the government agency website. The researcher was selective in choosing the published documents since the credibility of the data lies in their sources. The secondary data were also used as inputs for the development of the interview guide, interview focus, interview questions, and approach to interviews. The use of secondary data enables the researcher to read and analyse documents and resources in order to make sense of the case context, key stakeholders and practices (Mignon and He 2005). It served as a basic foundation for improving the researcher's understanding and interpretation of participants' experiences; thus, it was incorporated in the data collection strategy throughout the research process (Guba and Lincoln 1994). This enabled the researcher to trace the history of the IJV, the local and the foreign parent firm, which included tracking and confirming exact dates, reasons and motivations for the formation (Flick 2017).

### **3.5.2 Primary Data Collection**

In order to achieve the aim of this study, primary data collection techniques were also utilised. This form of data collection involves data collected by a

researcher for a particular research project; it is current and gives a better realistic view about the topic under consideration. Previous studies have identified various primary data collection techniques used in qualitative studies, which include interviews, focus groups and observational methods (Miles and Huberman 1994; Saunders et al. 2003; Myers 2013); but for the purpose of this study, the primary data collection techniques that were adopted are face-to-face semi-structured interviews and observations.

### **3.5.2.1 Semi-structured Interviews**

According to Kvale (1983), a qualitative research interview is “an interview, whose purpose is to gather descriptions of the life-world of the interviewee with respect to interpretation of the meaning of the described phenomena” (174). The face-to-face interview involves synchronous communication in time and place, it allows the interviewer to be free to investigate, probe and ask more questions that are considered interesting and relevant to the study (Patton 2005). This method provides intricate details of the qualitative phenomena and allows free interaction between the interviewer and the interviewee, thereby providing opportunities for clarification so that relevant data is captured (Bless and Higson-Smith 2000).

This data collection method has its advantages; however, like any other research tool, semi-structured interviews has its drawbacks. According to Hermanowicz (2002), “while interviewing is among the most central, revealing and enjoyable methods that one can use in research, it is deceptively difficult” (p. 498). This is because it is time-consuming, labour-intensive and requires interviewer sophistication (Adams 2015). Also, the interviewees are only willing to give what they are prepared to reveal about their perception of the phenomenon. These perceptions might be subjective and can change over time according to the interviewee’s circumstance (Hammersley and Gomm 2008; Alshenqeeti 2014). Therefore, to limit these drawbacks, the researcher used other forms of data collection method to

complement the data collected through interviews and also to solve the problem of rigour (O'Leary 2004; Kajornboon 2005).

Sandelowski (1995) argued that for a qualitative study, the sample size needs to be large enough to enable the researcher to unfold a new and richly textured understanding of the subject matter under study, but also small enough for an indepth case-oriented analysis. In the same vein, Morse (2000) suggest that fewer participants will be required if the more useable data are collected. Crouch and McKenzie (2006) stated that less than 20 participants in a qualitative study helps a researcher build and maintain a close relationship and thus improve the open and frank exchange of information. This can help mitigate some of the bias and validity threats inherent in qualitative research. Consequently, the sweet spot sample size for qualitative research studies is 15 to 20 interview participants. Hence a total of 20 semi-structured face-to-face interviews were carried out, and the participants consisted of senior and middle-level managers and other employees in the IJV, foreign parent firm and local parent firm that are highly knowledgeable about the subject matter. The researcher took into consideration the recommendations of Zhang and Li (2001) and Le (2009) that future studies could benefit from using multiple informants by getting information from the IJV, the foreign and the local parent firms. This approach helped the researcher to see the research topic from the interviewee's perspective and understand the reasons for having this particular perspective on IJV control design. Also, the use of key informants from the different levels of the IJV, foreign and local parent firms was to ensure multiple sources of information and triangulation of data, which adds credibility to the data collected, guarantees the study's integrity and builds rigour as recommended by many scholars (Miller and Brewer 2003; Creswell 2013): Denzine and Lincoln 2011). Furthermore, the 20 interviews were also supplemented with observation and secondary data.

Although this method is labour intensive, it was the best way to collect high-quality data for intrinsic case study research (Yin 1994; Stake 2005). It

provides a more spontaneous response to the question without delays, and it enables the researcher to pay attention to non-verbal behaviour (voice intonation, body language) (Opdenakker 2006).

### **Interview Protocol Development**

Before the interview, the researcher first developed an interview protocol, which was done by studying and understanding existing literature on IJV control design. In the case of this research where there is limited research in this area, the researcher had to also look at the broader picture by studying control mechanisms in organisations, as this helped the researcher to know what other scholars have said about the topic. Also, the researcher studied some published and unpublished documents of the IJV and the parent firms (using newspapers, magazines, information from websites and newsletters) that were available to help guide the preparation of the interview questions (Faems et al. 2008). This led to developing interview questions that were grounded in the literature.

The wording of the interview questions was an important factor that was taken into consideration, as inappropriate wording can mislead respondent answers. The researcher used open-ended questions, as it permitted the respondent to provide answers without being restricted and presented with implied choices. Furthermore, when the researcher was structuring the interview questions, the researcher avoided using leading questions in order not to influence the respondent's answers regarding their opinions and experiences on the subject matter. Follow-up questions were asked in order to probe further by incorporating the interviewee's words as this enabled the interviewer to collect more facts and opinions (Creswell 2007).

### **Pilot Study**

After preparing the interview protocol, the next phase of the data collection was to implement a pilot test. This was done in order to test the research design before commencing the actual empirical phase of the study and to generate a preliminary understanding of the IJV control design in EM IJV in

the Nigerian setting. Two open-ended exploratory interviews were carried out in March 2017 with two employees in the IJV. The interviews were recorded and subsequently transcribed.

Methodologically, the pilot study was helpful in the development and refinement of the interview protocol that was used for the eventual case study work. This helped the researcher to assess whether the protocol was realistic and workable for the study. The pilot test helped point out the flaws associated with the interview questions and design, so the necessary adjustments were made to the research questions before it was implemented (Kvale 2008). This enabled the researcher to have an idea of the study's feasibility (Teijlingen and Hundley 2001). Furthermore, there was the realisation that environmental conditions and equipment failure can potentially jeopardise the research. Thus, it was ensured that in addition to keeping the interview environment free from background noise and interruptions, the recording equipment functioned well, and that extra tapes and spare batteries were available. Collectively, all the measures applied helped to ensure the reliability of this study.

### **Interview Process**

This section presents details of the in-depth interview process that was conducted with the 20 informants. This covers the planning and actual delivery of the interviews as well as management of the interview process. The researcher had ethics approval from the University as this was important. Also, the researcher made sure that the interview process and questions did not cause any harm for the participants (Kvale 2007); this is further explained in section 3.9.

Before embarking on the interviews, the researcher contacted the participants who were involved in the research. They were informed of the role that they would be playing and clearly explained their right to anonymity and confidentiality and concluded by asking for their consent to participate in the research. The participants were informed that the data provided by them



will be stored at the university, that they would remain anonymous, and that no one would have access to it unless the participants consented in writing. The interviews were recorded with a voice recorder and notes were taken during the interview process for easy analysis. These were explained to the participants. All the participants were recruited voluntarily, accepted to participate and were also informed that they are free to withdraw from the research at any time should their circumstances change.

Next, the researcher sent some documents to the interview participants five days in advance of the scheduled interviews. One of the documents presented the study agenda, including the objectives and methodology to be used. Another document consisted of the interview protocol, which reinforced the study objectives and outlined the issues for discussion. The final document was a letter of consent, which emphasised compliance with maintaining participant confidentiality and anonymity, signed by the researcher and supervisors.

Donalek (2005) stated that the guiding principle to determining the date, location, and time of interviews should be agreed upon between the researcher and the interviewee. Thus, the researcher accommodated the needs of the participants in relation to date, time, and location. The participants suggested that the interviews should be held in their offices or conference rooms, and they also chose the date and time for the interviews. The interviews were carried out between the periods of April to June 2017 in Lagos State, Nigeria in the IJV conference room (with the IJV and the foreign parent firm participants) and the individual offices of the local parent firm's participants. The interviews were conducted in English language, and involved one participant at a time.

Based on the aims and objectives of the study, the informants were chosen using one of the following three categories: 1) **the case**: comprised of the key personnel in the IJV; 2) **position**: responsible for decision making with regards to the implementation of IJV control; 3) **experts**: comprised of

people in the IJV who are knowledgeable in the research subject. Table 3.2 below depicts the interview timeline and the categories of the respondents. Table 3.3 depicts the position and office of the interviewees.

**Table 3.2: Interview Timeline**

<b>Time</b>	<b>Interviewees</b>	<b>Number</b>	<b>Case</b>
April 2017	Senior and middle-level managers from the IJV, foreign	12	LFZDC
June 2017	Senior and middle-level managers from the IJV, foreign and local parent firm	8	LFZDC

**Table 3.3: Interview Participants and Positions**

<b>Cases</b>	<b>CALIL (Foreign Partner)</b>	<b>LWIL (Local Partner)</b>	<b>LFZDC (IJV)</b>
<b>Wednesday Company</b>	Marketing Manager	Managing Director	Administrative Controller
	Strategy Manager	Engineer	HR Manager
	Engineer	Strategy Manager	Marketing Manager
	Employee- Marketing department	Legal Adviser	Legal Adviser
	Employee- Marketing department	Employee- HR	Employee- HR
		HR Manager	Employee- Legal department
		Employee – Legal Department	Business Development and Policy Formulation

			Assistant Manager
			Engineering Controller

Each of the interviews started with an introduction to the background of the research study, followed by an outline of the research aims. All interviews were recorded with the consent and permission of the respondents. Each of the recorded interviews was saved on a separate audio file, and each file labelled with pseudo names of the participants. The interviews lasted between 30 minutes and 72 minutes duration.

The 20 interviews were conducted using the face-to-face semi-structured format. A semi-structured interview guide was used, and this allowed for a robust investigation of the research phenomenon, and suggestive questions were also used. The adoption of the semi-structured interview format allowed for flexibility in terms of the sequence of the questions that were covered, and thus, allowed further probing of the responses of participants (Bryman 2004). Initially, the researcher had a list of questions on a range of issues; however, the researcher gave the interviewees the liberty to answer as they wished. This enabled the interviewees to provide an in-depth explanation of their perceptions and experiences in regards to IJV control design. Following some responses, more probing questions were asked, which added richness and clarity to the data (Zikmund 2000).

### **3.5.2.2 Observation**

According to Marshall and Rossman (1989), observation is defined as “the systematic description of events, behaviours and artefacts in the social setting chosen for study” (p. 79). This involves the researcher describing the existing situation by using five senses and providing a written memo of the situation of the research phenomenon (Erlandson et al. 1993). Observation is based on the interpretivist paradigm, which is used in this research, and it

acknowledges the importance of context and the construction of knowledge between the researcher and the phenomenon being researched (Mulhall 2002).

As stated in this chapter, the observation was conducted to corroborate the findings of the semi-structured interviews. This helps to increase the robustness and validity of the overall findings of this study (Lincoln and Guba 1994; Dewalt and Dewalt 2002). Also, observation is used in this research because it enables the researcher to ascertain whether what people say they do in the semi-structured interviews, and what they do in reality, tally (Mulhall 2002). Furthermore, it helps inform the researcher about the influence of the physical environment, and the whole social setting in which people function, by recording the context in which they work in the IJV (Kawulich 2005).

In regard to this study, the researcher spent 12 days between April and June 2017 at the IJV collecting observational data, and this included observing the daily activities, interactions of the foreign and local employees in the IJV and the foreign parent firm representatives that were visiting the IJV site. During the data collection process, the participants were informed that they were going to be observed in order to collect more data for the study. Although less time was spent observing the participants, during the time that the researcher was on the IJV site, every opportunity was taken in order to observe their actions. The most significant opportunities came when the researcher was invited to join the foreign parent firm representatives that visited the IJV site in April 2017, and also when the host country government officials visited the IJV site in June 2017 for site tour in order to check the progress of the development of the site.

### **3.6 Data Analysis**

Collecting information is only the beginning of the research process and once the data has been collected, it has to be organised and meaning will be made out of it (O'Connor and Gibson 2003). This process is called data analysis. Qualitative data analysis involves a range of procedures and

processes that enables the researcher to move from the qualitative data that have been collected to providing an interpretation and explanation of the subject matter that is being investigated. The idea is to examine the meaningful and symbolic content of qualitative data (Bricki 2007). There are various techniques of qualitative data analysis such as grounded theory, content, thematic, discourse and narrative analysis (Miles and Huberman 1994; Braun and Clarke 2006; Alhojailan 2012). However, this study adopted the thematic analysis approach.

### **3.6.1 Thematic Analysis**

Thematic analysis involves analysing transcripts, identifying themes within those data and gathering together examples of those themes from the text (Hayes 1997; Braun et al. 2019). According to Clarke and Braun (2013), the goal of thematic analysis is to identify themes that are important and interesting and use these themes to address the research issue. Various scholars such as Mark and Yardley (2004) and Alhojailan (2012), recommended that thematic analysis is the most appropriate for this study as the researcher seeks to discover a new phenomenon by extracting information and interpreting the information. This data analysis technique provides some level of flexibility for approaching research patterns in two ways, which is inductive and deductive (Halldorson 2009). This flexibility enables the researcher to deal with the observational data collected. By gathering data using different instruments with participants in different environment, thematic analysis produces and presents the data more effectively and also reflects the reality of the data collected (Miles and Huberman 1994; Creswell 2009). This research used the Miles and Huberman (1994) model of data analysis for the thematic process, which is also known as an approach that is transcendental realism in nature. The data analysis process followed three steps: 1) transcribing, 2) data condensing, and 3) case analysis

#### **3.6.1.1 Step 1: Transcribing**

Following the suggestions of Bryman and Bell (2007), the interviews conducted in this research were recorded using a digital MP3 player. Therefore, there was a need to convert the audio recording into written text to facilitate the analysis. All 20 interviews conducted in this research were converted to written English language by the researcher and subsequently saved in word document files. The conversion process from audio recording to written text involved the researcher listening to the audio recording and typing everything that was said by the interviewees, word-for-word. The researcher had to go over the audio recording while checking what was typed out in order to confirm the accuracy of the transcript. This helped the researcher to become more familiar with the data. After transcribing, which produced a large amount of data, the next step was to become more familiar with the data by reading the transcripts over and over again, which allowed the researcher to gain a solid foundation on how to build the analysis and interpret the data. This is in line with Bogdan and Biklen's (2007:165) suggestion that in thematic analysis, the researcher should be familiar with the data.

#### **3.6.1.2 Step 2: Data Condensation**

Qualitative data can be vast and may contain irrelevant material. Therefore, in order to contain, facilitate, and ease the analysis, the researcher proceeded to organise and categorise the data (Robson 2002). The process of data condensation involves organising and reducing the data in order to enable the researcher to focus on the data that is most important to the research, as the researcher prepares to interpret and draw conclusions. This process enables the researcher to manage the data (Miles and Huberman 1994).

The researcher first manually coded and analysed documents and observation memos in order to refine and reflect the emerging codes with the aim of developing patterns and themes (Wertz et al. 2011). This involves the researcher reading the documents and memos word-for-word and using different coloured pens to highlight the codes. However, the researcher is aware of computer software packages such as NVivo, Atlas.ti, which can be

used to carry out qualitative analysis. The researcher progressed further to use NVivo version 10 to code and analyse the interview transcript. Hilal and Alabri (2013) highlighted that the electronic technique of data coding is gradually being increasingly employed to obtain rigour in dealing with qualitative data. It is a more scientific tool used by qualitative researchers to be more objective while analysing data. NVivo also “ensures that the user is working more methodically, more thoroughly, more attentively” (Bazeley 2007:56). The software reduces a great number of manual tasks and gives the researcher more time to discover tendencies, recognise themes and derive conclusions (Wong 2008). Coding manually and using NVivo (10) enables the researcher to remain close to the data in order to uncover meanings that lie beneath the respondent’s subjective reality, even though it was time-consuming. Therefore manual coding of the documents and observation memos and the use of NVivo for the coding of interview transcripts were considered adequate for the analysis process.

At this stage, the researcher adopted the principles of coding (Miles and Huberman 1994); thus, the process involved breaking down data into different units of meaning (themes). The process began with a complete reading of the text of all interview transcripts, documentary evidence, and then examined line-by-line, seeking to identify words or phrases that connote specific meanings. Coding was done through a line-by-line analysis and identification of phrases, sentences, or sections, and then pasting them under specific categories. Carson and Coviello (1996) raised some concerns about coding and highlighted that the process is somehow rigid. The authors argued that this can inhibit rather than facilitate analysis. Although the researcher proceeded with the coding, the researcher was open to the emergence of themes from the data. Overall, the process of coding culminated in the emergence of themes and sub-themes and was stopped after the researcher felt satisfied that the list of codes had converged to depict the control design and factors that influence the design. Tables 3.4 to 3.8 presents the summary codes for the control mechanisms and the factors.

**Table 3.4: Summary Codes for Formal and Social Control**

<b>THEMES</b>	<b>FORMAL CONTROL</b>	<b>SOCIAL CONTROL</b>
<b>CODES</b>	Ownership	Training
<b>CODES</b>	Contract	Socialisation
<b>CODES</b>	Board of directors	Communication
<b>CODES</b>	Formal meetings	Site Visits

**Table 3.5: Summary Codes for the Factors**

<b>THEMES</b>	<b>ORGANISATIONAL FACTORS</b>	<b>RELATIONAL FACTORS</b>	<b>EXTERNAL FACTORS</b>
<b>CODES</b>	Resources contributed by each parent firms	Previous experience of the foreign parent firm	Economic factor in the host country
<b>CODES</b>	Resource dependency of the parent firms	Knowledge transfer from the foreign parent firm to the local parent firm and the IJV	Institutional forces of the host country
<b>CODES</b>	Bargaining power of the parent firms	Trust building between the parent firms and IJV	National culture of both parent firms
<b>CODES</b>		Monitor the progress in the IJV	Legitimacy issues faced by the foreign partner
<b>CODES</b>	Leadership in the IJV	The conflict between the foreign and local employees in the IJV	
<b>CODES</b>	Task complexity	Protect the parent firms' investment	



**Table 3.6: Summary of Formal Control**

<b>LIST OF CODES</b>	<b>EMERGENT THEMES</b>	<b>THEMATIC AREAS</b>
Equity	<b>Ownership</b>	<b>FORMAL CONTROL</b>
Ownership		
Tripartite agreement	<b>Contract</b>	
Concession agreement		
Contract extension		
Local content agreement		
Managing director	<b>Board of Directors</b>	
Deputy managing director		
Controllers		
Executive directors		
Non-executive directors		
Board meeting	<b>Formal Meetings</b>	
Team meeting		
Strategy meeting		
Emergency meeting		

**Table 3.7: Summary of Social Control**

<b>LIST OF CODES</b>	<b>EMERGENT THEMES</b>	<b>THEMATIC AREAS</b>
Exchange programme	<b>Training</b>	<b>SOCIAL CONTROL</b>
International training		
In-house training		
Expatriate training		
Interaction	<b>Socialisation</b>	
Living and eating arrangement		
Social activities		
Festivals and national		

celebrations		
Emails	<b>Communication</b>	
Telephone conversation		
Face to face communication		
Body language		
Foreign parent firm's visit to the IJV site	<b>Site Visits</b>	
Local parent firm's visit to the IJV		
Chinese government officials' visit to the IJV site		
Nigerian government officials' visit to the IJV site		

**Table 3.8: List of Generated Thematic Coding for the Factors**

<b>EMERGENT THEMES</b>	<b>THEMATIC AREAS</b>
Resources contributed by each parent firms	<b>Organisational Factors</b>
Resource dependency of the parent firms	
Bargaining power of the parent firms	
Leadership in the IJV	
Task complexity	
Previous experience of the foreign parent firm	<b>Relational Factors</b>
Knowledge transfer from the foreign parent firm to the local parent firm and the IJV	
Trust building between the parent firms and IJV	
Monitor the progress in the IJV	
Protect the parent firms' investment	
The conflict between the foreign and local employees in the IJV	<b>External Factors</b>
Economic factor in the host country	
Institutional forces of the host country	
Legitimacy issues faced by the foreign partner	
National culture of both parent firms	

### **3.6.1.3 Step 3: Case Analysis**

At this stage of the analysis, the researcher had already made a detailed description of the case in the study, as well as completed the coding of all

transcripts and documents within the case. The next stage entailed the analysis of the patterns that emerged from the data within the case. The focus at this point of the analysis is to acquaint the researcher with the case and allow the patterns at the case level to emerge, before attempts are made to examine the data in the case (Eisenhardt 1989). Precisely, the themes from the coding served as building blocks supplemented with comments and notes within the case file. This enabled the researcher to detect relationships and connections. Following Miles and Huberman's (1994) process of within-case analysis, numerous strategies of interpreting data, such as noting relationships between variables and clustering, was used.

There were instances during the case analysis process when the researcher discovered that the interview data were insufficient to explain a particular connection or relationship. Therefore, an alternative source of data, for instance newspapers and company documents, were used to explain the phenomenon. Since this researcher adopted the iterative approach (Orton 1997), it provided a chance for the researcher to turn to deductive thinking and then go back to the documents to search for evidence, which also typifies the inductive-deductive approach adopted in this study.

### **3.7 Rigour and Validity of the Research**

The validity of the research refers to the extent to which the data collection or the analysis procedures will yield consistent findings, and whether the findings are really about what they appear to be about (Saunders et al. 2009). The researcher took the quality and reliability of the research into consideration when deciding on the research method to adopt for the study. First, the credibility of the research was determined from the lens of the researcher, whereby the researcher adopted the triangulation technique (Creswell and Miller 2000). Triangulation "refers to the combination of two or more theories, data sources, methods or investigators in one study of a single phenomenon to converge on a single construct and can be employed in qualitative (inquiry) studies" (Yeasmin and Rahman 2012:156). Denzin (2012) recommended four types of triangulation in their study and they are:

data triangulation (retrieve data from a number of different sources to form one body of data), interview participants' triangulation (using multiple observers instead of single observer in the form of gathering and interpreting data), theoretical triangulation (using more than one theoretical position in interpreting data) and methodological triangulation (using more than one research method).

For the purpose of this study, triangulation was done across data sources and participants. The researcher adopted multi-data sources and methods, whereby the data was collected through semi-structured interviews, observation, and published documents. The triangulation across participants was done by carrying out interviews with senior and middle-level managers and other employees from the IJV, foreign and local parent firm, thereby involving three levels of the management hierarchy. The documents were used to corroborate the data obtained through interviews and to confirm the information provided by the participants. The data from the IJV and the two-parent firms, helped to check the validity of the research (Denzin and Lincoln 2005; Yeasmin and Rahman 2012). This is confirmed by Yin (1994) and Flick (2002) who suggested that multiple sources of evidence also assist in cross-checking and corroborating information provided by different participants where there are conflicting accounts of events and actions, as multiple informants tend to produce more reliable and stable results for the researcher.

Furthermore, the case study finding was strengthened by the convergence of information from a variety of sources (Yin 1994). The use of multi-data sources assisted in the data triangulation as it was an effective way to overcome most of the weaknesses of each data source used in the study. Again, the interpretive researcher acknowledges that the subjectivity of the analysis in their predispositions, beliefs, values and interests, "always intervene to shape their investigation" (Orlikowski and Baroudi 1991:15). Table 3.9 shows the various forms of triangulation used in the study.

**Table 3.9: Form of Triangulation**

Form of Triangulation	Characteristics
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Data source Triangulation	<ul style="list-style-type: none"> <li>• Semi-structured interviews,</li> <li>• Observation</li> <li>• Published documents (e.g. newspaper and magazine clippings, company brochure and newsletters from the IJV, local and foreign parent firm and information from the government agency website)</li> </ul>
Participants Triangulation	<ul style="list-style-type: none"> <li>• Senior, middle-level managers and other employees in the IJV</li> <li>• Senior, middle-level managers and other employees in the local parent firms</li> <li>• Senior, middle-level managers and other employees in the foreign parent firm</li> </ul>

**Source: Author's research using Sayre (2001) and Patton (2002)**

Second, the researcher ensured the credibility of the study through the lens of the participants by adopting member checking. The researcher gave some of the respondents the transcripts of the interviews in order for them to confirm and verify the credibility of the information and the final narrative for the research (Creswell and Miller 2000). Where needed, a second round of interviews was done in order for the researcher to get more information and verify the details that were provided in the first batch of interviews.

Third, the researcher used the lens of the people external to the study to check the quality and reliability of the research. In the case of this study, the researcher made presentations on IJV control mechanisms at the Academy of International Business (AIB) UK conference, University of Bradford Post Graduate Research conference, research seminars with colleagues, experts in the field and meetings with the researcher's supervisors in order to gather feedback. This helped the researcher gain external verification of the logical flow and a chain of evidence in the research and also determine the trustworthiness of the findings (Ellram 1996; Creswell and Miller 2000).

**Table 3.10: Reliability of the Research**

<b>Paradigm Assumption/Lens</b>	<b>Paradigm</b>	<b>Technique</b>
The lens of the researcher	Triangulation	<ul style="list-style-type: none"> <li>• Data triangulation</li> <li>• Investigator triangulation</li> <li>• Methodology triangulation</li> </ul>
The lens of the participant	Member checking/prolong engagement in the field	<ul style="list-style-type: none"> <li>• Cross-checking with the respondent</li> </ul>
The lens of people external to the study	Audit trail	<ul style="list-style-type: none"> <li>• Supervisory meeting</li> <li>• Peer discussion (e.g. research seminar)</li> <li>• Conference presentations (e.g. Academy of International Business (AIB) UK, University of Bradford Post Graduate Research Conference)</li> </ul>

**Source: Author’s research using Creswell and Miller (2000)**

### **3.8 Reflexivity**

Reflection is a cognitive practice that is largely used in qualitative research (Pillow 2003; Mortari 2015). It involves, “the process of a continual internal dialogue and self-evaluation of the researcher’s positionality as well as active acknowledgement and explicit recognition that this position may affect the research process and outcome” (Berger 2015:220). Reflexivity unsettles representation by suggesting that scholars are constantly constructing meaning and social realities as we interact with others and talk about our experience (Cunliffe 2003). Qualitative case study research constitutes a joint involvement of the researcher, the research participants and their relationship, thereby serving as a source of subjectivity. In order to overcome the criticisms associated with subjectivity in a qualitative case study

approach, scholars have increasingly used reflexivity to acknowledge the researcher's role in regard to the research design, data collection and analysis (Ping-Chun 2012; Seidman 2013). Reflexivity allows the reader to evaluate the study in terms of the "quality, accuracy, and usefulness of the research outcomes" (Hosking and Plunt 2010:64) and allows the researcher to legitimise and validate research procedures (Pillow 2003; Mortari 2015).

In regard to this research, the review and reflection focused on the case selection, pilot interviews and analysis process. For the case selection, the researcher initially selected two cases with the first case being an IJV between two EM firms operating in an EM, and the second case being an IJV between two developed firms operating in a developed market. However, after data collection, the researcher realised that the developed market IJV could not be classed as an IJV, as the joint venture was between two local parent firms. The researcher was able to identify the mistake because after the interview, the researcher reflected on the case profile and realised that the company the researcher thought was the foreign partner, was actually a local company that was established by a foreign company. Also, the supposed developed market IJV is not an equity-based joint venture, and as such, it did not fit the initial case selection criteria. After the case selection error was identified and the developed market IJV was removed from the study, the researcher reflected on the first case and realised how unique and interesting the emerging market IJV is, as it involves both the foreign and local parent firm government. Also, the foreign parent firm is made up of a consortium of four Chinese companies and the local parent firm is made up of a company that was formed by two government agencies.

**Lessons Learnt:** The whole case selection process alerted the researcher on the need to pay attention to every minute detail throughout the research process, and also get clarification on unclear issues as this can affect the quality of the data presented in the research.

For the data collection process, after conducting the pilot study, the researcher listened back to the audio-recordings of the pilot interviews. The researcher noticed that there were awkward pauses during the pilot

interviews due to a lack of skills to probe the interviewee further. The researcher was also made aware that the wording of the interview questions was inappropriate, as the language of questions was not simple enough for the research participants to understand. This led to redrafting of the interview questions. Another problem noticed, was that the researcher was not listening attentively throughout the interview as she was more focused on asking all the interview questions within the allocated interview time. Furthermore, the researcher realised that the interview recording was disrupted in some parts by background noise, and the participant was not very comfortable with the interview location. The location for the interview can create bias, as Dingwall (1992) suggested one ways of reducing bias in qualitative research is to ensure that the design explicitly takes into consideration different interview locations.

**Lesson Learnt:** Simple language that can be easily understood by a layman should be used in order to enable the research participant to respond to the question appropriately. The next lesson learnt is that there is a need to listen attentively and probe when needed, in order to allow the free flow of responses from the interviewees. Also, the interviews should be conducted in an environment that is free from noise as the research participants will be more comfortable responding to the interview questions.

For the data analysis process, initially, the researcher coded the data manually and also kept a memo during the initial data analysis stage in order to provide a visible audit trail. However, the researcher realised that subjectivity was going to be an issue; the researcher moved to use software called NVivo in order to obtain rigour in dealing with the data. The data analysis process alerted the researcher to look closely at the data and explore the contextual meaning, while searching for regularities and exception in the data. The data produced numerous themes, but the researcher initially was not sure of how to merge and eliminate the themes. After careful study of thematic analysis and the meetings with the research supervisor, the researcher was able to come up with key themes and sub-themes.



**Lesson learnt:** There is a need to develop data analysis skills by using some techniques to generate the findings as effective and efficient as possible.

### **3.9 Ethical Issues**

Ethical issues are present in any research and should be viewed as fundamental to judge the quality and rigour of any study. Ethical considerations influenced this research in terms of accessibility of data, since it is considered as the key quality used to judge the objectivity of the study. Qualitative research requires understanding appropriate ethical standards even when other quality criteria have been met (Lincoln 1995).

The researcher has an ethical responsibility in keeping the interviewees' participation in the study confidential. The anonymity and confidentiality were observed with respect to discussions with the participants and even during the reporting process of the findings. First of all, the researcher obtained ethics approval from the University's Ethics committee before proceeding to the fieldwork. This required providing the University with necessary details and documents to prove that all measures had been put in place to safeguard participants, the University, society as a whole and even the researcher. Second, respondents were recruited through written letters inviting them to participate (see a copy of the introduction in the appendix). The research objectives were communicated, including a description of how the data was going to be used. Third, potential respondents were then asked to sign a consent letter indicating their willingness to participate in the study. Fourth, during the interview, the researcher asked the participants if they would like to remain anonymous or not, and also do the same with the firms that were involved. The participants did not want to be anonymous when presenting the findings from all the interviews, internal and external documents; therefore, the data was not made anonymous. Fifth, participants were also informed clearly that the data was going to be used for research purposes only and that no person would be given access to the data unless the participant requested it in writing. Sixth, as interviews needed to be

recorded using a digital voice recorder, the consent of all participants was sought before interviews were recorded. Seventh, the transcripts, as well as the written interpretations and reports of interviews, were made available to participants and they were given the freedom to object to any detail they disagreed with in the report. Furthermore, the data that was collected was stored in such a way that a password would be required in order to gain access to the data; this meant the data and findings would remain confidential. The data was stored in line with the General Data Protection Regulation (GDPR). The data collected will be stored for 5 years and used for publications, and after that, the data will be deleted permanently.

### **3.7 Conclusion**

In conclusion, this chapter has explained the philosophical foundations and research design adopted to address the research aim, which is to investigate IJV control design in EMs. This chapter has described the numerous research paradigms available to this researcher. The pros and cons of the respective paradigms were examined, and the interpretivist approach was selected and justified as being the most appropriate strategy for addressing the research aim. It was then determined that a qualitative approach would be most suitable for this design, and it was therefore adopted. Subsequently, a single case study method was considered as the most suitable strategy for pursuing the research. The main data generation techniques used involved in-depth interviews with participants, observation and a variety of published documents. The case analysis entailed a rigorous examination of transcripts and the emergent themes. Efforts were made to ensure quality criteria and careful attention was paid towards ensuring the study's credibility, validity and reliability.

Having explained the overall methodology of the research, the next chapter presents the within-case analysis of the formal control used in the study.

## CHAPTER 4

### CASE ANALYSIS – PART 1

#### 4.0 Introduction

The purpose of this chapter is to present a systematic case analysis of this thesis that addresses the aims of the research. Section 4.1 provides a basic description of the EM IJV and the parent firms, the IJV formation, motives, resources contributed by each parent firm, the organisational structure and a brief development history of the IJV. Section 4.2 provides an analysis on how the IJV was shaped and the interaction of the factors that influenced formal control design. The final section provides a summary of the chapter.

#### 4.1 Lekki Free Zone Development Company

##### 4.1.1 Basic Description of Lekki Free Zone Development Company

Lekki Free Zone Development Company (LFZDC) is a Nigerian IJV formed between China-Africa Lekki Investment Ltd (CALIL) (a consortium of four Chinese companies) and Lagos State Government (LSG) represented by Lekki Worldwide Investment Limited (LWIL). CALIL is the majority shareholder, with 60% shareholding and LWIL with 40% shareholding. LFZDC was launched following the execution of a tripartite agreement in January 2006 between CALIL and LWIL. The IJV is located in Lagos State – the Nigerian trade, economic and financial hub. The China-Nigeria Economic and Trade Cooperation Zone was incorporated in May 2006 as a 50-year IJV (LFZDC Website 2019).

##### 4.1.2 Formation of Lekki Free Zone Development Company

The idea of a Free Trade Zone (FTZ) was conceived by the previous Lagos State Governor, Mr Bola Tinubu in 2003. The Governor allocated 3,000 hectares of land for the project, and it had to be registered with the Nigeria Export Processing Zone Authority (NEPZA) (Gold 2016). NEPZA, is a Federal Government Agency especially established to license, regulate and operate highly efficient Free Zones in Nigeria by providing a highly

competitive incentive scheme, excellent support facilities and services to create an enabling environment for export manufacturing and other commercial activities (Yanshuo 2018). It was established following the enactment of the Nigeria Export Processing Zones Act 63 of 1992 (NEPZA Website 2019). However, the previous Governor realised the relative advantage of a FTZ in Lagos State ahead of other parts of the country. The Governor's vision for a FTZ in Lagos State was later expanded to building a model city, and the land area was increased to 16,500 hectares (Gold 2016). LSG wanted to use this as a means to attract foreign investment in order to foster economic development, export promotion, job creation and the establishment of a one-stop global business haven (LFZDC Website 2019). As a result of the desire to establish a FTZ in Lagos State, Nigeria, Lekki Worldwide Investment Limited (LWIL) was formed in May 2004. It is an investment company with a 50% shareholding owned by Lagos State Government Development and Property Corporation (LSDPC) and another 50% owned by Ibile Holdings, the Lagos State investment company. LWIL was set up as a state government agency to facilitate the development of the Lekki Free Zone (LFZ), and also serve as an investment and holding company for the government. Hence, there is full government involvement in the local parent firm company. LSG gave LWIL the right of land use and also the right to manage the allocation of the land within the free zone. LWIL was also established to promote the development of the FTZ to fully utilise the investment and tourism potential of Lagos (LFZDC Website 2019).

LSG is in charge of appointing the board of directors in LWIL, because it is a government agency, and as such, there is active government involvement in managing the company. Prior to forming LFZDC, LWIL had never been involved in developing and managing a FTZ. Therefore, they had no experience of managing IJVs, partnerships, and alliances. LWIL was aware of their limitations, which included a lack of necessary resources, expertise and experience; hence, they decided to form an IJV (LWIL Website 2019).

The starting point for the formation of the IJV was to identify and select suitable partners. The LSG, through LWIL, had a clear idea and specific criteria on the type of candidates that they were targeting. They initially wanted companies from the Western market that had the necessary resources, technology, knowledge, and experience, and were ready to internationalise through IJV. However, they were unable to achieve that goal, which put them in a weak position (Mthembu-Salter 2009). The second option that they considered was to look for companies in East Asia. In 2005, LWIL found four suitable companies in China that were ready to partner with LWIL on the project (Oluoch, Reuters, 1st September 2010). Based on LWIL's inability to secure a Western partner and their level of desperation, they partnered with one of the first sets of Chinese companies that they contacted.

The decision to go with the Chinese companies was because LWIL was impressed by the FTZs in China, specifically the one in Nanjing, China, which is a mixed development FTZ, with residential, commercial, industrial and recreational facilities. Also, some of the Chinese companies have been involved in the development of some of the Free Zones in China; therefore, they have some degree of expertise and experience that LWIL was looking for, some even have the experience of operating in Nigeria (CALI Website 2019). Another reason for going with the Chinese partner, was because of their level of involvement in the development of African countries and this resonates with the newspaper article below:

*"The choice of China as a partner is because in recent times, they have had the experience of transforming an unrated nation into a world-class nation." (Oluoch citing Thompson, Reuters 1st September 2010)*

Furthermore, LWIL went with a group of Chinese companies as their IJV partner because of the level of construction required in the FTZ, and the Chinese firms have the experience and expertise. This resonates with the response below:

*"It has a long construction process as we hope to plan it using China's successful experience in developing its special economic zones." (Yanshuo citing Lai Siqing, Deputy General Manager of CALI Beijing Review, vol. 51, 20<sup>th</sup> December 2018)*

Although LWIL did not get the initial Western partner that they wanted, they were still able to get a partner that had the required resources, skills, knowledge and experience. Also, instead of partnering with one Western company, LWIL partnered with a Chinese consortium formed by a group of Chinese companies.

After several months of negotiation of the terms of the IJV between the Chinese companies, LSG and LWIL, which involved the LSG and LWIL representatives visiting China to meet with the Chinese companies, and the Chinese companies also visiting Nigeria, a tripartite agreement was signed by the parties involved in January 2006. The IJV was incorporated in May 2006 and named Lekki Free Zone Development Company (LFZDC). NEPZA and the LSG authorised LFZDC as the sole entity responsible for developing, operating, administering and managing the south/west quadrant of the Lekki Free Zone (LFZ) project (Lekki Free Zone Investment Brochure 2011). The shareholders are entitled to share revenue proportionate to their shareholding ratio.

The IJV is not a traditional IJV with two companies, but it is made up of a foreign parent company that is a consortium of four Chinese companies, where three of the companies either have Chinese government involvement, or are Chinese government agencies. On the other hand, the local parent firm is a company that was formed by two LSG agencies. Therefore, there is full Chinese and Nigerian government support and involvement in the IJV, which aids the creation of a strong local and foreign foothold.

*"Since the kick-off in early 2006, LFZ has been granted with great support and assistance from the relevant government ministries and departments of both China and Nigeria, including Nigeria Export Processing Authority (NEPZA), the State Government of Lagos,*

*Chinese ministries of Foreign Affairs, Commerce and Finance, etc.” (Lekki Free Zone Investment Brochure 2017:7).*

The signing of the tripartite agreement by the four Chinese companies led to the formation of a consortium called CCECC-Beyond International Investment and Development Company Limited in Beijing in March 2006. The consortium is made up of China Railway Construction Corporation Limited (CRCC), China Civil Engineering Construction Corporation (CCECC), Nanjing Beyond Investment Limited, and Nanjing Jiangning Economic and Technological Development Corporation. The consortium is an investment management company that specialises in overseas project investment and was registered with a total paid-up capital of 1.143 billion Yuan (CALIL Website 2019).

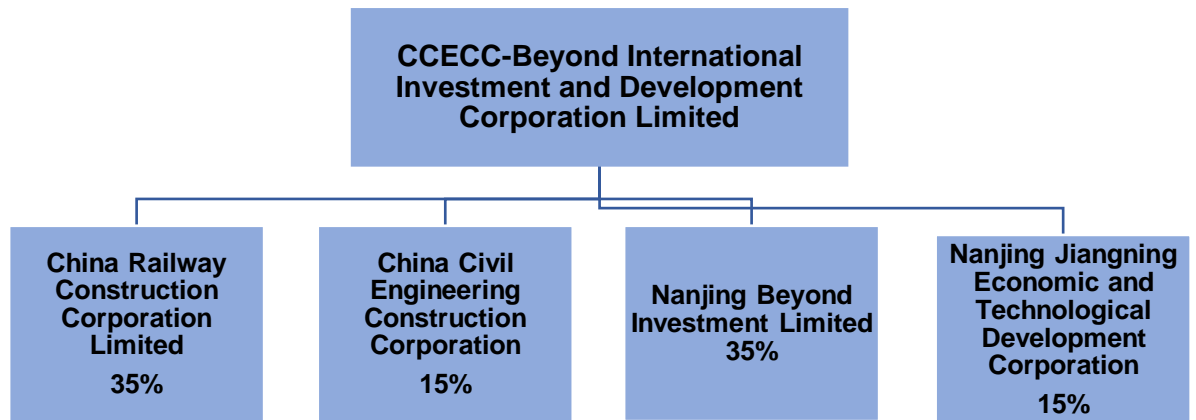
There is government involvement in the consortium as CRCC and CECC; two members of the consortium are state-owned companies under the supervision of China State Council. CRCC is one of the largest engineering contractors in China and the world’s most powerful and largest integrated construction group, ranking 59<sup>th</sup> among the Fortune Global 500 in 2019 (CRCC Website 2019). CCECC a subsidiary of CRCC is a large-scale state-owned enterprise with more than 20 overseas offices or subsidiaries and has expanded to over 40 countries. CECC has been listed among the world’s top 225 international contractors for over seventeen years (CCECC Website 2019). Both state-owned companies are major players in the construction industry in China and around the world. The dominant role of CRCC within the consortium, highlights the level of importance the Chinese government attaches to the LFZ. Nanjing Jiangning Economic and Technological Development Corporation has fifteen years’ experience of attracting and managing the Nanjing Free Zone in Jiangning, China (Nanjing Jiangning Economic and Technological Development Corporation Website 2019). Nanjing Beyond Investments Limited is a Chinese private venture capital company. Although only four Chinese companies formed the consortium, China-Africa Development Fund (CADFUND), which is managed by China

Development Bank also provided equity finance and presented a proposal for them to be included on the board of directors (Special Economic Zones Report 2011). Although the consortium was formed as a result of the need to be involved in the IJV and strengthen the Nigerian-Chinese relationship, one of the members have experience of managing a free zone, and two other members are government-owned companies and have been involved in JVs, alliances and also have business experiences in Nigeria and other African countries.

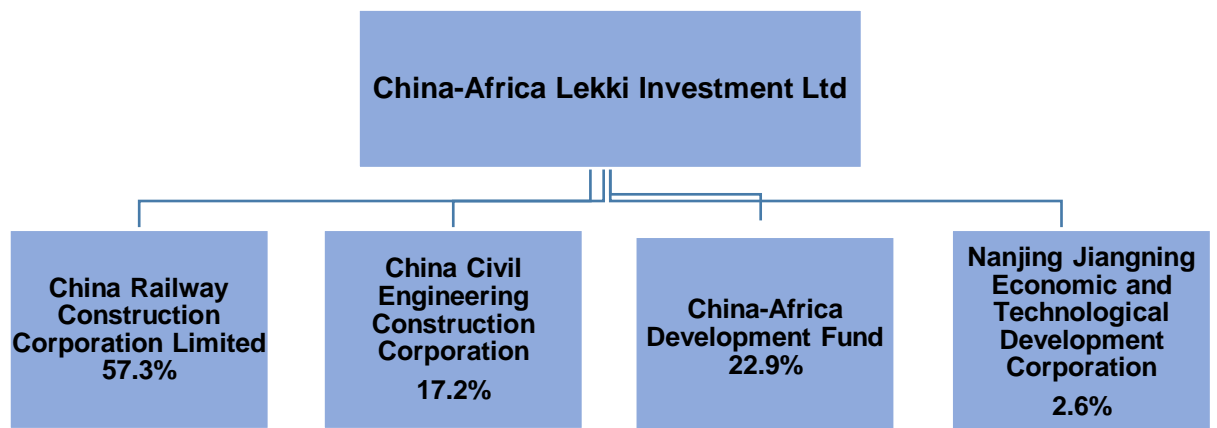
In 2008, there was significant financial and managerial disagreement between the members of the consortium on how to finance and run the project. The financial problem resulted partly from the global financial crisis, while in terms of the managerial issues, CCECC assumed that they would handle the bulk of LFTZ construction needs, since they are the second-largest construction company in Nigeria. Nanjing Jiangning Economic and Technological Development Corporation appropriated most of the tasks, but the LSG was concerned about the quality of the work being executed. Thus, the LSG lodged a formal complaint, which resulted in the halting of the work on the project and demanded that CCECC handles the construction on the project. Based on the review of the complaint, the Chinese government intervened and restructured the Chinese consortium in favour of CCECC and also brought in China-Africa Development Fund (CADFUND), which is managed by the China Development Bank. As a result of the intervention by the Chinese government, Nanjing Beyond Investments Limited pulled out of the consortium, and LSG was satisfied with the resolution. CCECC resumed construction work on the site in early 2009 and they were also given clear leadership in leading the project. Also, Nanjing Jiangning Economic and Technological Development Corporation equity share was reduced from 15 percent to 2.5 percent in the consortium (Mthembu-Salter 2009). The change in the members of the consortium led to the change of the name of the consortium from CCECC-Beyond International Investment and Development Corporation Limited to China-Africa Lekki Investment Ltd (CALIL). The business registration procedures and renaming were completed in April 2010



(Lekki Free Zone Investment Brochure 2011). Figure 4.1 shows the initial ownership of the project by the Chinese companies, while Figure 4.2 shows the current ownership structure.



**Figure 4.1: Initial Consortium Ownership Structure**



**Figure 4.2: Current Consortium Ownership Structure**

#### **4.1.3 Motives of Lekki Free Zone Development Company Formation**

CALIL has a clear motive for the IJV formation. The main aims are to strengthen the China-Africa cooperation and relationship, to be involved in the development of the FTZ, and also serve as a platform for other Chinese firms to internationalise. The Chinese partner stated that the IJV was established, in part, to provide access to government support and

connections and also serve as a means of combating legitimacy issues that they may face during internationalisation. The government connection was essential for them because it helps in accelerating decision-making and also removes bureaucratic bottlenecks that may accompany regulatory procedures and approvals in Nigeria. They also wanted to partner with a company that has local knowledge and experience, even though the market lacks competition. The data collected from a news agency and reports also show the motive of the IJV formation for the Chinese partner.

*“CRCC identifies its objectives in line with the Chinese Government’s “going out” strategy, as well as expanding the market for Chinese goods in Africa, and supporting the growth of Nigeria’s industrial sector by learning from the experience of China’s industrial zones. Additionally, CRCC indicates a long-term corporate strategy to use the Lekki project as a flagship to help build the CRCC brand name in the region.” (World Bank Report 2011:36)*

*“We have a number of Chinese companies which are coming into the manufacturing area.” (Oluoch citing Thompson, Reuters, 1st September 2010)*

*“One of the main reasons for the Chinese to come to Nigeria was due to a paucity of competition. Clustering was one thing they directly wanted to avoid because it was seen as a source of potential competition.” (UNDP Report 2015)*

On the other hand, LWIL formed the IJV in order to gain access to capital, resources, knowledge and experience, to attract foreign investment and develop the FTZ, which will, in turn, create jobs in Nigeria. The IJV will also build a model for cooperation between the countries for mutual benefit and bilateral relationships. Another motive for the local partner is to serve as a means for acquiring resources that the Nigerian partner is unable to get independently. This resonates with the response below:

*“Knowledge transfer is one of the objectives of the formation of the venture.” (Administrative Controller LFZDC)*

The mission of the IJV clearly states the motives of the IJV formation for the local partner. It was formed in order:

*“To develop an offshore economic growth zone, attract foreign investments, promote export, create job opportunities, minimise capital flight and establish a one-stop global business haven.” (LWIL Website n.d)*

The UNDP Report provides a quote that resonates with the local partner’s motive of the IJV formation:

*“The LFZ management is convinced that the zone will play an important role in boosting the Nigerian manufacturing sector by building the necessary bridge to China through attracting Chinese investment and companies to invest in the zone.” (UNDP Report citing LFZDC Employee 2015)*

However, one common motive for the IJV formation between the parent firms, is to strengthen the Chinese-Nigerian collaboration and relationship, and this resonates with the statement from the Lekki Free Zone Investment Brochure.

*“In the face of economic globalisation with the support of both Chinese and Nigerian Government, Lekki Free Zone, a Sino-Nigeria, Joint Venture is being developed as a model of cooperation between the two countries for the purpose of mutual benefits and bilateral relationship.” (Lekki Free Zone Investment Brochure 2011:5)*

Overall, the data reveals that both CALIL and LWIL have different motives for IJV formation; therefore, the analysis shows that a mixed-motive game and a symbiotic relationship exist between the parent firms in LFZDC.

#### **4.1.4 Resource Contribution**

At the negotiation stage of the IJV, CALIL and LWIL had a mutual agreement to contribute various property-based and knowledge-based resources. The foreign partner contributed property-based resources, such as financial capital (\$200 million), infrastructures and technology, and knowledge-based

resources such as intangible know-how and skills (technical, operational and managerial expertise and prior experience). As explained in section 4.1.2, some of the companies that make up the Chinese consortium are government agencies; they have the experience of working in Nigeria and other African countries, while one of the members has experience of managing a Free Trade Zone in China. CALIL Strategy Manager stated:

*“We bring cash, but we also bring our technical expertise and the operational know-how for Free Trade Zones. Everybody knows that some of the most successful stories of Free Trade Zone come from China, so that is how it came about.” (Strategy Manager CALIL)*

*“The Chinese partners have the technical know-how and capital, so we have different things that we bring to the table.” (Engineer, CALIL)*

Based on the mutual agreement between the parent firms, the LSG through LWIL, contributed \$65 million, land, and licences as their property-based resources, and in terms of knowledge-based resources, they contributed local knowledge, government support and connection.

*“It helps if both sides bring different things to the table, and in this case, we have the land, we have the political savvy and knowledge, we have the connections with the ministries and agencies of government.” (Managing Director LWIL)*

This reveals that the IJV between CALIL and LWIL is structured in a traditional way where both partners contribute different resources. The resources contributed by each parent firm is aimed at showing their commitment to the IJV, and the Nigerian government also played a significant role in terms of resource contribution to the IJV. Despite the foreign partner not being LWIL's first choice, they offered various significant resources and contributed a majority of the resources. The value of the assets provided by the local partner is not high in comparison to the foreign partner, but they are considered as specific assets, which are rarely available in the market. Therefore, the resource dependency is strong between both

parent firms as they rely heavily on each other for various resources that they can contribute to the venture.

Although both parent firms had a mutual agreement regarding the financial contribution, LWIL was under the impression that CALIL would deliver all their money up front, but this was not stated in the contract. The foreign parent firm only provided money to the IJV at their discretion. CALIL provided some money in the first year of operation and in April 2009, they provided a further \$50 million in cash and kind to the IJV. However, at that stage in the IJV, the funds provided by CALIL were not sufficient for the development of the FTZ. This led to the LSG stepping in and providing \$67 million based on the 2009 state budget allocation for the LFTZ development (Mthembu-Salter, SAIIA Policy Briefing, vol. 10, 2009). In May 2016, the LSG released an additional sum of \$4.5 million as part of its equity, in order to fast track the development and also boost the on-going infrastructural development. In summary, both parent firms contributed additional resources to the IJV according to their interests.

#### **4.1.5 Organisational Structure of the Venture**

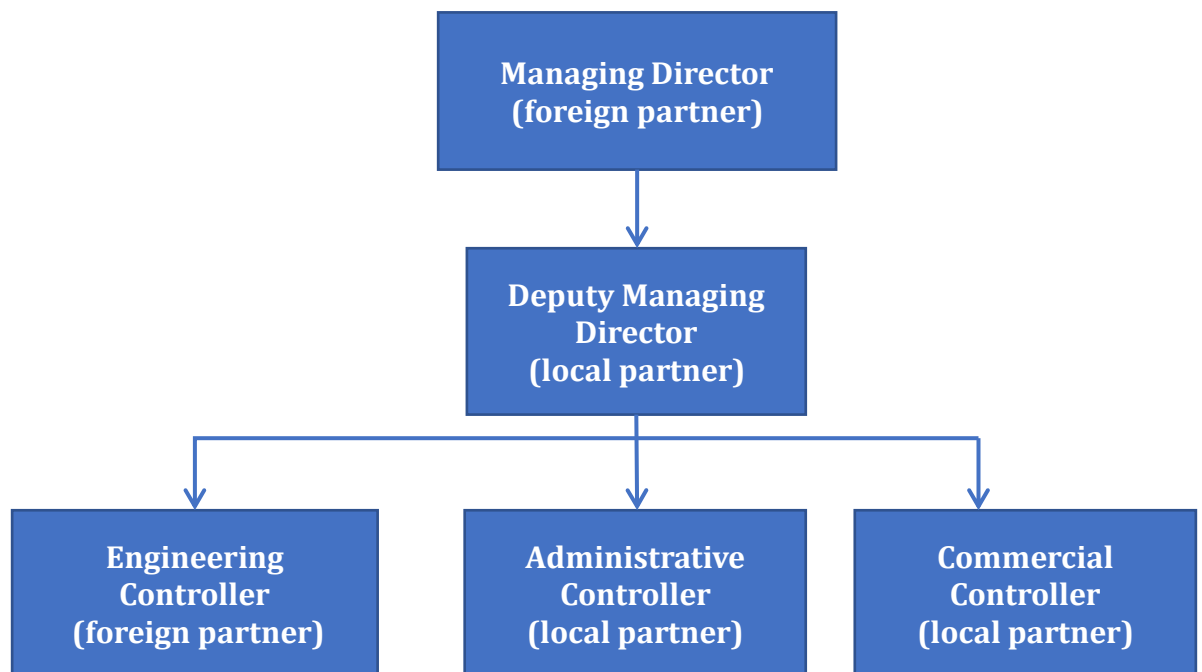
CALIL is the majority equity holder in LFZDC, and they enjoy the dominant management control in the IJV. CALIL controls all the key functions of the project through the people that are appointed to manage the IJV. The key management positions in the IJV are the Managing Director (MD), Engineering Controller and the Commercial Controller. On the other hand, LWIL occupies the Deputy Managing Director (DMD) and Administrative Controller positions. These five members make up the senior management team of LFZDC.

*“For the management roles, the MD is nominated by the Chinese, the Nigerian nominated the deputy managing director, and then you have three controllers that support them, and that is what forms the top management team. The three controllers act like advisors to the MD and DMD, and they also coordinate the activities of different departments under them through the heads of those departments. So, for the controllers, there are two*

*nominated by the Chinese and one nominated by the Nigerian.” (Marketing Manager CALIL)*

As evident from above, the senior management employees of LFZDC are the representatives of the individual parent companies; they serve as a link and also an informant for the parent firms, this is further explained in section 4.2.3. Although CALIL is the dominant partner, both parent firms make decisions in LWIL as they are fully involved in the daily strategic and operational activities in LWIL. This means that both the MD and the DMD make all approvals. Generally speaking, cooperative and collaborative relationships exist between both parent firms, although their motives for participating in the IJV are different.

When LFZDC was formed, the workforce comprised about 60 employees, but over the years, the number of employees has increased to about 320. Each employee in the venture has clear duties, roles and responsibilities. Figure 4.3 shows the current management structure of the project.



**Figure 4.3: Management Structure in LFZDC**

#### **4.1.6 Development History of Lekki Free Zone Development Company**

- In January 2006, a tripartite agreement was signed between CALIL and LWIL.
- In May 2006, LFZDC was incorporated.
- In November 2006, Nigeria's then-President Obasanjo sent a letter to LFZDC to give his full support, and the Chinese also gave full support to the FTZ.
- In 2007, through competitive bidding, LFZDC was officially approved by the Chinese Ministry of Commerce and regarded as one of China's Overseas Economic and Trade Cooperation Zones in Africa. Operations started fully in the zone after the approval.
- In 2008, there was a delay in the construction of the zone as a result of the financial constraints on the part of the Chinese consortium. This was linked to a dispute over partnership within the Chinese consortium. The dispute was resolved with the help of the Chinese government, but after that, one member of the consortium left the partnership, and a new member joined the consortium
- Construction resumed in the zone in early 2009.
- At the end of 2009, under the coordination of the Ministry of Commerce and other departments, CADFUND and CRCC carried out an equity adjustment. There was a capital increase, and the registered capital of the consortium was increased by 200 million Yuan.
- In April 2010, the corresponding business registration and renaming of the consortium were completed
- In 2013, the Chinese Secretary proposed the strategy "One Belt and One Road". This is a development strategy adopted by the Chinese government involved in infrastructure development and investments in countries in Europe, Asia, and Africa. The development of the LFTZ was included in the national "One Belt, One Road" strategic framework.

- In 2015, the parent firms signed a second tripartite agreement due to the insufficiency of the capital contribution as a result of the economic situation in the Nigerian market
- In 2016, there was a rapid development in the zone, where infrastructures were being completed day by day, basically achieving “five connections and one levelling”, and thereby attracting more enterprises to invest in the zone. Based on the level of development in the zone, 30 large-scale enterprises entered the zone.
- In June 2017, the Nigerian Custom Processing Centre was commissioned in Lekki Free Zone, and it is expected to serve as a one-stop-shop outfit.
- In 2019, the number of enterprises that have entered the zone has increased to 116.

**Table 4.1: Main Characteristics of the Case**

<b>Characteristics</b>	<b>Lekki Free Zone Development Company</b>
<b>Partners</b>	<p><b>China</b> – China- Africa Lekki Investment Ltd formerly known as CCECC-Beyond International Investment and Development Company Limited (consortium made up of four Chinese companies)</p> <p><b>Nigeria</b> – Lekki Worldwide Investment Limited - a company formed by two Lagos State Government agencies</p>
<b>Date of Establishment</b>	2006
<b>Equity Share</b>	60/40
<b>Contractual Duration</b>	50
<b>Type of JV</b>	Equity-based
<b>Host Country</b>	Nigeria
<b>Ownership Structure</b>	Dominant
<b>Level of Involvement</b>	Active involvement by both parent firms
<b>Government Involvement</b>	Active involvement by both the Chinese and the Nigerian government
<b>Voting Right</b>	The foreign partner has majority voting right



<b>IJV Function</b>	To develop, operate, and manage a modern Free Zone in accordance with international practice by optimally utilising the advantages of Lagos as the important distribution hub in West Africa.
<b>Resource Contribution</b>	<p><b>Foreign Partner:</b> finance, technical and management expertise, operational know-how, and technology</p> <p><b>Local Partner:</b> finance, land license, connection, and local knowledge</p>
<b>Motivation for Formation</b>	<p><b>Foreign Partner</b></p> <ul style="list-style-type: none"> <li>• Involvement in the development of a Free Zone,</li> <li>• Gain access to government support and connections</li> <li>• Gain access to the Nigerian market</li> <li>• Strengthen the China-Nigeria relationship and collaboration</li> <li>• Solve legitimacy challenges</li> <li>• Knowledge transfer</li> </ul> <p><b>Local Partner</b></p> <ul style="list-style-type: none"> <li>• Develop the Free Zone</li> <li>• Gain access to capital, knowledge, experience and other resources</li> <li>• Strengthen the China-Nigeria relationship and collaboration</li> <li>• Job creation</li> <li>• Gain access to foreign investment</li> </ul>

## 4.2 Formal Control Mechanism

Formal control mechanisms are used by parent firms and the IJV to influence the activities in the venture, and also to protect the parent firms' assets. Specifically, the data revealed that the parent firms and the IJV primarily exercised formal control through ownership, contract, the appointment of the board of directors, and meetings, and various factors influenced the use of formal control in LFZDC. These formal control and factors are further discussed below.

### 4.2.1 Ownership

The ownership structure of LFZDC at the inception of the IJV was 60:40 with CCECC-Beyond International Investment and Development Corporation

Limited having a majority ownership share and LWIL with the minority ownership share, as mentioned in section 4.1.1. However, two years after the formation of the IJV, the ownership structure of the foreign parent firm changed, but this did not have any impact on the ownership structure of the IJV, as it remained the same at 60:40. The things that changed at that point in the IJV was the name of the foreign partner from CCECC-Beyond International Investment and Development Corporation Limited to China-Africa Lekki Investment Ltd, the ownership structure of the consortium, the removal of one of the members of the consortium and the introduction of a new member to the consortium as explained in section 4.1.2.

However, the division of the equity by the parent firms in LWIL was related to the resources contributed by both parent firms. As explained in section 4.1.4, CALIL contributed the majority of the resources and also invested more financial capital. The foreign parent firm invested \$200 million, while LWIL invested \$67 million. A CALIL Marketing Department Employee had this to say in regards to the ownership structure:

*“For Lekki Free Zone Development Company what we have is a 60:40 relationship equity contribution and a concessionary of 50 years.” (Employee Marketing Department CALIL).*

The Managing Director of LWIL illustrates the requirement for majority ownership rights through equity with the following quote:

*“So, we are the 40% joint venture partner; the CALIL has 60% of the joint venture... To be honest with you, the Chinese contributed more to the project, and they initially wanted to have more equity, but we refused because that would have made us not to have a say in this project.”*

As evident from the above response, this implies that CALIL contributed more valuable resources compared to LWIL, and this enhanced their bargaining strength, thus allowing them to demand a higher equity share in LFZDC. The bargaining power of the foreign parent firm is dependent on the

asset specificity and their resource dependency level, which in turn influenced LFZDC ownership structure design. Although the foreign partner contributed the majority of the resources, they were also faced with legitimacy issues, which made their bargaining power relatively weaker at the negotiation stage. CALIL depends heavily on the local parent firm for easy access to the local market, knowledge, and government connection and networks, as explained in section 4.1.4. LWIL had some leverage due to the role they played in terms of the access and contact network with the host government and also knowledge of the local environment. Therefore, the legitimacy issues faced by the foreign partner enhanced the bargaining power of the local partner. The foreign partner having the majority did not impede local participation in IJV decision-making or establish a barrier with the local partner contribution. This is also confirmed by the quote from the respondent below:

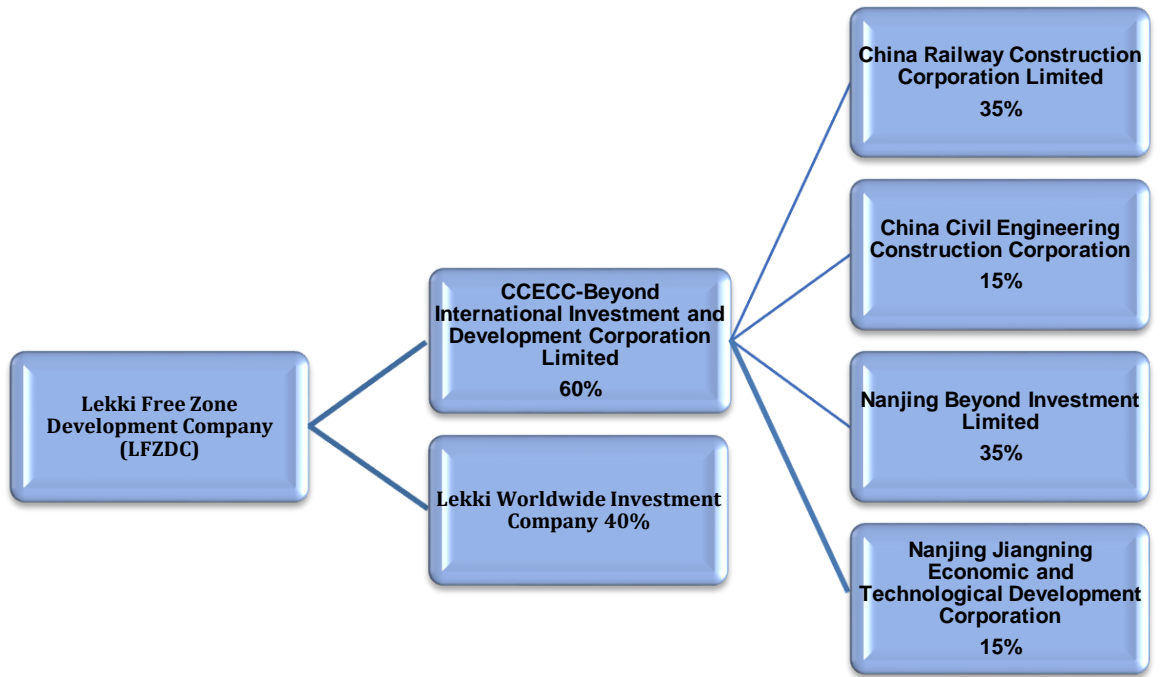
*“For us, we are an investment company, so when LWIL approached us, it was the easiest way for us to gain access to the Nigerian market as a group and be involved in the project. We wanted a company that has connections with the government because it will make things much easier for us.” (Marketing Manager CALIL)*

Furthermore, the local parent firm’s inexperience and lack of expertise played a significant role in the equity distribution. From the negotiation stage, LWIL made CALIL aware that they had no experience of developing and managing a Free Zone or running an IJV. On the other hand, Nanjing Jiangning Economic and Technological Development Corporation, one of the companies that make up the consortium has the experience of managing a Free Zone in China (Nanjing Jiangning Economic and Technological Development Corporation Website, 2019). While CRCC and CECC have the experience of running IJVs, partnerships, alliances and have also been involved in developing Free Zones in China and some African countries. In comparison to the local parent firm, the foreign partner has some degree of experience of operating in the Free Zone industry and has been involved in various inter-organisational relationships.

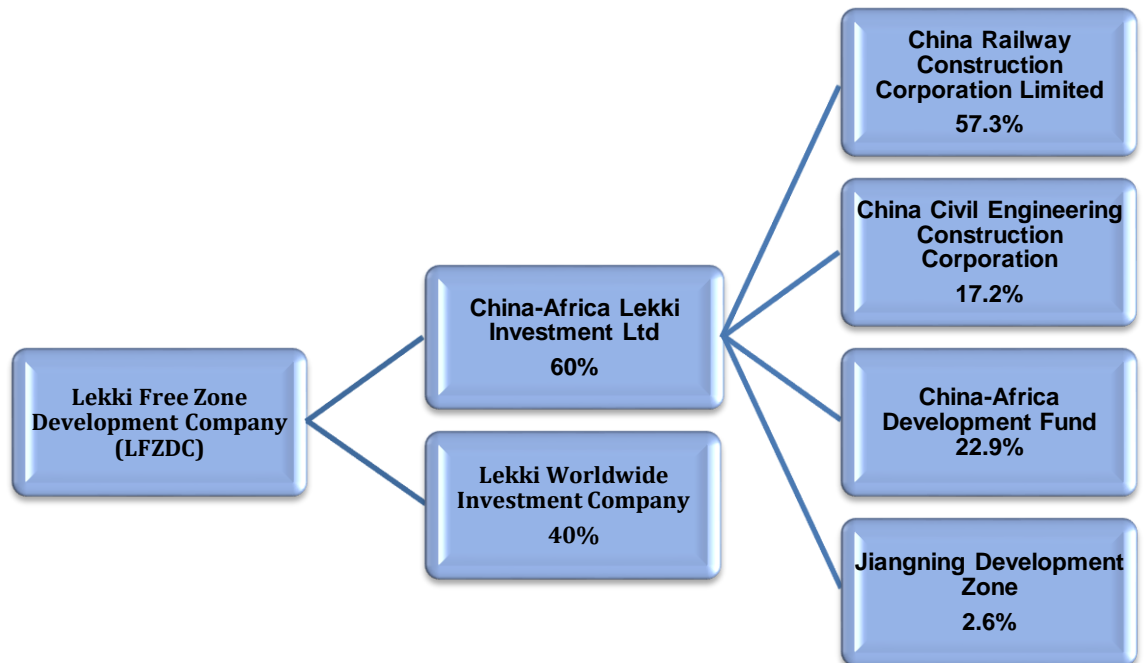
*“From the inception, it was evident that we did not know anything about Free Zone, so we needed a company that has the experience and knows a lot about Free Zones to teach us and take us through the process of development. They have the experience, but we are zero on that. So that is one of the reasons why I said what they brought to the partnership is dominant compared to what we brought.” (Engineer LWIL)*

A further investigation of the data reveals that CALIL had more bargaining power based on the level of desperation shown by LWIL when they were trying to find a partner willing to form an IJV with them. LWIL was unable to select a partner from the Western market, which was their only option at the time they were planning to form an IJV. After they shifted their focus to the East Asian market, they did not find a partner immediately as it took them a couple of months. Since LWIL was desperate to choose a partner that could help them develop the Free Zone and CALIL was aware of the Nigerian partner's desperation, and the fact that Nigeria is perceived as a high-risk investment destination, CALIL was able to bargain for more ownership as explained in section 4.1.2.

In summary, a combination of five factors within the IJV and the IJV relationship, played a role in allocating the equity stake to the parent firms. Interaction of the resources contributed by each parent firm, resource dependency and the bargaining power of each parent firm, and the legitimacy challenges faced by the foreign partner jointly influenced the ownership structure design in LFZDC, which means the Chinese partner has a 60% equity stake, while the Nigerian partner has a 40% equity in LFZDC.



**Figure 4.4: Initial Ownership Structure of LFZDC**



**Figure 4.5: Current Ownership Structure of LFZDC**

#### **4.2.2 Contract**

CALIL and LWIL spent approximately five months negotiating and designing the IJV contract, and this culminated in the signing of the tripartite agreement in April 2006. The distribution of the equity share to each parent firm was one of the main reasons the negotiation lasted for that amount of time. The negotiation resulted in the signing of a 50-year contract and a range of agreements about LFZDC and its controls. The contract included the equity share of the parent firms, financial contribution, structure, scope and objectives, organisational and personnel structures, the partners' mutual responsibilities, disputes and confidentiality agreements. The following excerpt from the IJV legal adviser reveals the nature of the contract:

*“The tripartite agreement, which is the basis for the joint venture stipulates the duties and the responsibilities of each party. The tripartite agreement also specifies the master plan for the joint venture.” (Legal Adviser LFZDC)*

Although the contract was signed by both parent firms, over time, LSG realised that the original agreement was too generous and unworkable. The local partner noticed that the pace of construction in LFZDC was slow, which means that it will take them 30 years to complete the development of the project site. Based on that, the agreement had to be renegotiated, thereby allocating only 3000 hectares of land to LFZDC from the original 16500 hectares. The remaining 13500 hectares of land was left for interested investors willing to develop the area (Mthembu-Salter 2009). Furthermore, on the 19<sup>th</sup> of May 2015, a concession agreement was signed by the parent firms. The agreement officially granted LFZDC the concession to develop, manage and operate the Southwest Quadrant of the LFZ (3000 hectares of land) for 50 years.

It is pertinent to note that the local parent firm made it clear from the inception of the IJV that developing and managing a FTZ and an IJV was something new for them. Based on that their lack of knowledge, they did not know how to go about the negotiation of the contract, and as a result some

aspects of the contract which involves the foreign parent firm was not clear. For example, it was not clear in the contract the financial contribution of the foreign parent firm, and when they would provide the financial resources, as explained in section 4.1.4. Therefore, the process of negotiation and renegotiation of the contract process was a learning experience for them as evidenced by the following excerpts:

*“The Lagos State Government seems to acknowledge that it should have been clearer in establishing its initial agreements with the Chinese consortium, in particular stating specifically the expectations with regard to funding as well as a stricter implementation schedule.”*  
(World Bank report 2011:37)

*“LSG will handle negotiations with other prospective partners more confidently and assertively in the future.”*  
(Mthembu-Salter 2009:3)

The number of Chinese workers employed by LFZDC was another issue that was renegotiated, which led to the contract extension. From the inception of the IJV, there was no agreement on the number of Chinese workers that will be employed in LFZDC. Thus, when the IJV was formed, they employed more Chinese workers, much to the resentment of the local workers. As a result of the imbalance of the workforce, a local content agreement had to be negotiated. This agreement guarantees that a minimum of 40% of the LFZDC workforce must be Nigerians. The local content agreement prioritises Nigerians to carry out any work that they are able to do, instead of bringing in a Chinese workforce to carry out the same work. The IJV Legal Adviser reported what he believed to be the contract design in relation to the number of foreign and local employees in the IJV:

*“The initial contract was designed at a time when many people could not see the future, but the element of association was taken into consideration. However, going down the line, one or two things that were not envisaged came up. For example, local content became a problem since there were a lot of Chinese working here. We dealt with it by using a supplementary agreement... Initially, we had more than 90 employees from China and 55 Nigerian employees, but now the ratio is 20 Chinese to 80 Nigerian employees.”* (Legal Adviser LFZDC)

The response above reveals that at the initial stage of the IJV, there was an imbalance in the workforce as the Chinese partner had more employees in the venture. The signing of a local content agreement in respect to the number of employees gave the Nigerian partner the right to have more employees in the IJV.

Over time, the staffing imbalance also created tension between the local and the foreign employees in the IJV. At the negotiation stage of the IJV, the foreign parent firm agreed to send experienced expatriates to work in LFZDC. This was because they have the knowledge and experience of running and managing a FTZ and also some of the companies that make up the consortium have been involved in different forms of inter-organisational relationships. However, after operations started in the LFZDC, inexperienced employees were sent to the zone, which caused some tension between the local and foreign employees in the IJV because this was not what they agreed on at the negotiation stage, as evidenced by the following excerpts:

*“At the beginning of the project, the Chinese side did not provide the required manpower; rather, we received language teachers and translators who had no idea how to build a Free Zone, and this caused a lot of issues amongst the IJV employees.” (LFZDC Interview cited by UNDP Report 2015)*

After the local employees raised some complaints to the IJV, a more experienced workforce including the management team and engineers were sent to LFZDC. The recruitment of experienced expatriates was important to the local parent firm and the IJV, because they serve as a mechanism for knowledge transfer to the parties involved. The staffing issue of sending inexperienced and unqualified foreign workers to work in LFZDC was resolved, as CALIL sent some experienced people to the Free Zone. However, the number of expatriates increased, and there were more foreign workers than Nigerian workers in LFZDC. This also caused some problems in LFZDC due to the imbalance between the number of foreign workers and



local workers in the zone. This led to a reduction in the number of foreign employees in LFZDC, and they were sent back to China.

*“Nigerians reported that they had asked the Chinese to send some of their construction workforces back to China and hire Nigerians. One researcher reported that an agreement negotiated between the two sides calls for at least 40 percent of the workforce to be Nigerian.” (Mthembu-Salter 2009:3).*

In 2016, there was another renegotiation of the contract, which was as a result of the recession in the host country. The parent firms had to review the initial tripartite agreement and make some adjustments in order for it to fit the current economic position of the host country. The response below summarises all the participants’ reaction from the local partner’s perspective:

*“There was an agreement that the 60% owner will put in \$200 million, while the 40% owner will put in \$67 million worth of money over time that is over ten years. Now at that time, that provision was adequate because perhaps they felt that putting in \$27 million every year into the joint venture was going to be adequate for the work, but of course, there have been inflation and even recession in Nigeria.” (Managing Director LWIL)*

On the other hand, the foreign partner Marketing Manager had this to say in regard to the adjustment of the tripartite agreement.

*“We have had two tripartite agreements; the first one was signed in 2006, and another one was signed in 2016. Now this agreement was signed because we realised that the amount of money that we had agreed to invest was not going to be enough. We did not foresee this kind of thing. So, we had to increase our money and LWIL too.” (Marketing Manager CALIL)*

The LFZDC Administrative Controller reported what they believed to be the reason for the renegotiation of the IJV contract:

*“The tripartite agreement we have had two, the first one was signed in 2006 and the second one was signed in*

*2016. Now the second agreement was signed because they realized that there were some things they needed to renegotiate and come to terms.... We just had to make these adjustments because the economy was not favourable anymore and we could not continue with the initial equity that we agreed on.” (Administrative Controller LFZDC)*

The responses above imply that based on the economic situation of the host country, this had a negative impact on the financial contribution of the parent firms, which in turn influenced the renegotiation of the IJV contract by the parent firms.

In summary, the conflict between the foreign and local employees in the IJV, the factor in the IJV external environment, which is the institutional force in the host country, and the economic situation in the host country, influenced the contract design, renegotiation and adjustment.

#### **4.2.3 Appointment of the Board of Directors**

The board of directors are in charge of carrying out executive and non-executive duties in the IJV. LFZDC has nine board members, four non-executive directors, and five executive directors. In respect to the non-executive directors, two are appointed by LWIL while the other remaining two are appointed by the foreign parent firm (LFZDC Website 2019). At the negotiation stage of the IJV, since the foreign parent firm had majority equity in the IJV, they negotiated to occupy the position of the chairman of the IJV board. This resonates with the response below:

*“I can remember vividly because I was there during that meeting, CALIL was stressing the need for them to occupy the chairman position. I guess they knew that was not going to happen. Maybe they were trying their luck and use what they are bringing to the venture to see if that will help their case.” (Legal Adviser LWIL)*

The appointment of the chairman by the foreign parent firm was not possible due to the institutional policies of the host country. The regulation does not permit a foreign partner to appoint and occupy the position of the chairman of

the board. Therefore, the local parent firm had the right to appoint the chairman of the board.

From the negotiation stage, there was clear communication between the parent firms in regard to the people that would occupy key positions on the board. In terms of the appointment of executive directors in LFZDC, there was no conflict between the parent firms. The five executive directors are the Managing Director (MD), Deputy Managing Director (DMD), Engineering Controller, Commercial Controller and Administrative Controller. CALIL appointed the MD, the Engineering Controller and the Commercial Controller, while LFZDC appointed the DMD and the Administrative Controller. The executive directors are involved in managing the daily strategic and operational activities in LFZDC. The MD and the DMD make all the decisions about the venture, while the Controllers implement them. The appointment of the executive directors by their parent firms is illustrated by the interview responses and the OECD report on West African Challenges below:

*“We have the board of director arrangement on the basis of 60:40 relationship.” (Engineer CALIL)*

*“The Managing Director is a Chinese; the DMD is a Nigerian, the Engineering Controller is a Chinese, the Commercial Controller is a Chinese, and the Administrative Controller is a Nigerian.” (Engineer LWIL)*

*“Besides being the largest in West Africa, the Lekki Free Trade Zone is remarkable in the amount of local involvement in the management of the zone. Most African partner governments own only a small share in the co-operation zones and play little or no role in operating them. With a 40% stake, the Nigerian investors have taken a more active role in the Lekki project, and Nigerians hold some of the management positions.” (OECD Report 2015:14)*

The response above implies that both parent firms were involved in the appointment of the board of directors. The board members serve as a link between the IJV and the parent firms, and both the local and foreign parent firms influence the operations in LFZDC through the appointed board

members. The local parent firm appointed some board members in order to ensure that the Nigerian interests are considered.

However, there were issues between the foreign and local parent firm and their representatives on the IJV board, and this was because of the language differences. At the initial stage of the IJV, the foreign partner appointed people on the board that required translators, and this posed some communication problems in the IJV. In some instances, what was communicated between the Nigerian and the Chinese members on the board was lost in translation, which created some misunderstanding at board level. Also, there was the issue of the Chinese parent firm appointing unqualified people to occupy the board position, and this was not what they had agreed with the local parent firm at the negotiation stage of the IJV.

*“There were also serious communication issues. The first teams appointed by the Chinese needed translators, no experience of building FTZ and were overwhelmed, with the weather conditions, with the working environment and working attitude of the locals.” (UNDP Report 2015:30)*

*“Imagine sitting on a board meeting, and you have translators... Sometimes it felt awkward because of the silence while waiting for the translator to speak to the Chinese people and get a response. There have been situations where there has been a loss in translation and this caused a lot of issues. For example, when a Nigerian says something, and we get a response from the translator, and it does not match up with what was said it becomes a problem.” (Legal Adviser LFZDC)*

The response above shows that there were issues about communication between the Nigerian and Chinese members on the board, and the appointment of unqualified people by the Chinese partner. As a result of the language barrier and communications issue at board level, this prompted the introduction of language training in IJV, which is further explained in chapter five, section 5.1.1.

The division of the managerial control between CALIL and LWIL took advantage of the resources contributed by each parent firm. The board

members were appointed based on the equity contributed by each partner. CALIL has a majority equity stake, as explained in 4.2.1, and are clearly in the dominant position where the key managerial positions are occupied by the personnel appointed by the foreign partner. Although CALIL is a dominant partner in LFZDC, LWIL also has power on the board and the operation of the IJV through the DMD and the Administrative Controller appointed by the LSG. Based on the resources contributed by the LWIL, such as local knowledge and government connection, and also the legitimacy issue with regards to the CALIL, it was necessary for LWIL to have their representative on the board to help the foreign partner manage the legitimacy issues they were facing.

Furthermore, the host country government played a significant role in the appointment of the board of directors. Over the lifecycle of the IJV, the LSG appointed the people that occupy the allocated positions on the LFZDC board. This shows that the host government has an active involvement in the IJV and they are indirectly involved in the daily running and operations of LFZDC through the people that they appointed. This was done in order to protect the interests of the local parent firm. Meanwhile, in the case of the foreign parent firm, CALIL solely has to appoint the members on the board and the foreign government is not involved. This resonates with the report from LFZDC newsletters:

*“In July 2019, the Lagos State Government has announced the appointment of Mr Adegboyega Balogun as the new Deputy Managing Director....in the same vein, also announced the appointment of Mrs Folasade Adebayo as the new administrative controller, effective August 1<sup>st</sup>, 2019.” (LFZDC Newsletter 2019)*

*“In February 2018, the China Africa Lekki Investment Limited (CALIL) has announced the appointment of Mr Huang Xiong as the new Managing Director.” (LFZDC Newsletter 2018)*

*“The Lagos State Government also announced the appointment of Popson Jaiyesimi who officially took over as the new Deputy Managing Director since January 2018.” (LFZDC Newsletter 2018)*

The previous experience and expertise of the companies that make up the consortium, as explained in section 4.1.2 also played a role in the appointment of the board of directors. One of the motivations of the formation of LFZDC for the local parent firm is knowledge acquisition. Therefore, in order to achieve this motive, the parent firms agreed to capitalise on the experience and expertise of the foreign partner as consortium members had previously been involved in JV operations and Free Zone development, as explained in section 4.1.2. The appointment was made in order to ensure that the personnel appointed to occupy any key position, had the required skills to run the IJV effectively and efficiently. In addition, the foreign parent firm can transfer their knowledge, expertise and ways of operating to the IJV, through the people appointed to the key positions.

In summary, a combination of resources contributed by each parent firm, the legitimacy difficulty faced by the Chinese partner, previous experience and expertise of the Chinese partner, knowledge transferred from the foreign partner to the local partner, and the institutional forces of the host country played a key role in the appointment of the board of directors.

#### **4.2.4 Formal Meetings**

The respondents revealed that prior to forming LFZDC, the local parent firm's management team had to have several meetings, which resulted in the decision to prepare materials that were relevant for the formation of the IJV. During the various meetings at the partner selection stage, the criteria for the partner selection were agreed and a deadline for finding a suitable partner was also set. In early 2005, four potential partners were identified, and due diligence of the companies was undertaken by LWIL to ensure they meet the set criteria. Next, LWIL made it clear to the companies that they were willing to enter into an IJV with them. However, the four companies agreed to form a consortium in order to partner with LWIL. In August 2005, the LWIL management team visited Beijing, China in order to have a face-to-face meeting with the various members that formed the consortium. The meeting was held in China because of the legitimacy issues that the foreign parent

firm was facing, and the management know-how possessed by the Chinese partner. To some extent, the Chinese parent firm lacked confidence; they knew that the Nigerian parent firm at that time was trying to find a partner from the Western countries, as explained in section 4.1.2. Therefore, they invited LWIL to China to see the IJVs and Free Zones that the individual companies forming the consortium had been involved in developing and managing.

At the negotiation stage, various meetings ranging from negotiation to strategy meetings were held between LWIL and CALIL. These meetings serve as a platform for the partners to discuss the various conditions of the contract, such as resources to be contributed by the parent firm, equity share of each partner, the terms of the inter-organisational relationships, and the key management position that each partner was going to occupy. The use of face-to-face meetings before entering the collaboration enabled the parent firms to have a better understanding of each other. After operations started in LFZDC, the board of directors began to have board meetings quarterly, and this was done in order to review the progress of the development and operations in the zone. Other meetings used are LFZDC management meetings, various committee meetings, team meetings, and departmental meetings. The frequency of these meetings ranges from daily to once a month and some are held as the need arises.

*“We have board meetings four times a year. Sometimes the Chinese partners come down to Nigeria, and sometimes we go there. We have other meetings, which are quite frequent because we need to review our progress. For example, if we make certain policies after a certain time we will call for a meeting to review it and see if those policies were implemented properly, to see if we are doing fine, if we are not, what are the challenges you know, do we need to re-strategies, so the meetings are quite often.” (Administrative Controller LFZDC)*

*“For example we usually have meetings with the representatives of both shareholders like the Lagos State Governor meeting with the president of CCECC,*

*the MD of CALIL and all. Yes we have that regularly.”  
(Employee Marketing Department CALIL).*

*“There is hardly anything that goes on in this company  
and even the venture that is not discussed at meetings.”  
(Managing Director LWIL)*

The formal meetings are used to review and monitor the progress of the development of the zone and also share information and knowledge. Furthermore, the parent firms use these meetings as a tool to provide a platform to discuss and explain each other's interests in order to ensure that they have goal congruence.

Similarly, a further inquiry into the interviews revealed that when the parent firms have a scheduled board meeting, the partners usually go to the location of the board meeting, which is either at the LFZDC premises or the CALIL premises a day before the meeting. The need for all parties involved to arrive a day before the board meeting is to enable them to meet in an informal setting. The meeting facilitates a setting in which the delegates could make and adjust their perceptions about each other. This is to ensure that they can get along with each other and that trust can be built. Trust plays a decisive role in cooperation between the parent firms.

*“Almost every time we have a meeting, the day before the meeting is typically set aside for just having lunch, interacting, going for walks, I mean you should attend one of our dinners, it is unbelievable. It is a hair throw down day because people have flown in from China from all over the world, we are all camped up together, and everybody know that they are here for a two-day board meeting, but everybody arrives on a Wednesday, but the meeting is on Thursday and Friday... This is crucial for us because we should be able to some extent, trust the people that we work with and work for.” (Engineer CALIL)*

*“Sometimes the board meeting is held here, and sometimes they have it in China, and they always include a lot of extra-curricular activities, it is not always sitting in the boardroom and deliberating all day they want us to see what is going on here and get to know our selves better.” (Administrative Controller LFZDC)*



In addition to regular meetings, the partners arrange emergency board meetings to discuss any problem that need to be resolved immediately. In 2016, there was an emergency board meeting held to discuss the current economic position of the host country.

*“We had to have an emergency meeting, and I was present at that meeting. There was a pressing matter, and we needed to act fast. You know the economy has not been favourable, so we need to meet urgently to discuss how to handle the economic recession and what to do so that the impact does not affect the development of the zone.” (Legal Adviser LFZDC)*

The above response shows that the emergency meeting was held in order to discuss the economic situation of the host country and its impact on the financial contribution of each partner and the agreement. Therefore, the economic factor influenced the use of emergency meetings in LFZDC.

Two significant things that were pointed out during the interview was that first, during the meetings, language differences posed a huge challenge for the Nigerians and the Chinese, as the Nigerian did not speak or understand Mandarin and the Chinese did not understand English. As a result of this the Chinese had translators during meetings as explained in section 4.2.3. Based on the language differences and the problems it posed in the IJV, this informed the development of language training which is a form of social control, which is further explained in chapter 5, section 5.1.1.

Second, during the first few years in the IJV, there were misunderstandings between the foreign and the local parent firms and also the foreign and local employees in the IJV. This was because the Nigerian employees and the Nigerian parent firm were always turning up late for meetings, and this was an issue for the Chinese parent firm and the Chinese employees in the IJV. The Chinese are known for their punctuality while the Nigerians are known for turning up late for meetings. This meant that during each meeting, the foreign participants had to always wait for the local participants. The national

culture of the parent firms played a significant role in the use of meetings, and this resonates with the response below:

*“Punctuality is a big thing for us the Chinese, so when we are working with people that do not keep to time, that becomes a big problem for us... The Nigerians are known for not being punctual.” (Marketing Manager CALIL)*

After the local parent firm and the local employees in the IJV realised that their lateness was causing misunderstandings in the IJV, they started going to meetings on time. However, the change for the Nigerians was a gradual process, but over time the majority of the Nigerians became punctual when attending meetings and other events with their foreign counterparts, as evidenced by the following excerpt:

*“We are so used to African time, that is attending event late, but with these people that we are working with, you cannot continue with that habit if not you will continue to have issues with the Chinese people that you work with. When they say a meeting is for 1 pm, they usually go to the venue before that 1 pm, but you will see a Nigerian just leaving his or her office at 1 pm and there is nowhere you will not be late for that meeting. However, things have changed for good on our side.” (HR Employee LFZDC).*

In summary, a combination of the legitimacy issues faced by the foreign parent firm, the need to build trust between the parent firms and the IJV, the economic situation of the host country, and the national culture of the parent firm, influenced the use of some meetings by the parent firms and the IJV.

**Table 4.2: Summary of Factors that Influence the Use of Formal Control in LFZDC**

<b>Formal Control</b>	<b>Organisational Factors</b>	<b>Relational Factors</b>	<b>External Factors</b>
Ownership	<ul style="list-style-type: none"> <li>• Resources contributed by the parent firms.</li> <li>• Resource dependency of the parent firms.</li> <li>• Bargaining power of the parent firms.</li> </ul>	<ul style="list-style-type: none"> <li>• Previous experience and expertise of the foreign parent firm.</li> </ul>	<ul style="list-style-type: none"> <li>• Legitimacy issues faced by the foreign parent firm.</li> </ul>
Contract		<ul style="list-style-type: none"> <li>• The conflict between the foreign and local employees in the IJV</li> </ul>	<ul style="list-style-type: none"> <li>• Economic factor in the host country.</li> <li>• Institutional forces of the host country.</li> </ul>
Board of Directors	<ul style="list-style-type: none"> <li>• Resources contributed by the parent firms.</li> </ul>	<ul style="list-style-type: none"> <li>• Previous experience and expertise of the foreign partner.</li> <li>• Knowledge transfer from the foreign partner to the local partner.</li> </ul>	<ul style="list-style-type: none"> <li>• Institutional forces of the host country.</li> <li>• Legitimacy issues faced by the foreign partner.</li> </ul>
Formal Meetings		<ul style="list-style-type: none"> <li>• Trust building between the parent firms and IJV.</li> <li>• Monitor the progress in the IJV.</li> </ul>	<ul style="list-style-type: none"> <li>• Economic factor in the host country</li> <li>• National culture of the parent firms</li> <li>• Legitimacy issues face by the foreign</li> </ul>

			partner.
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### **4.3 Conclusion**

In conclusion, this chapter has isolated the case and examined it thoroughly with respect to formal control design. This allowed the researcher to develop detailed descriptions of the case in the study, and as a result, patterns emerged within the case. The next chapter, which is also the within-case analysis, will examine the social control design in LFZDC.

## **CHAPTER 5**

### **CASE ANALYSIS – PART 2**

#### **5.0 Introduction**

This chapter presents a systematic case-analysis of how the social control used in the focal IJV was shaped, including the joint effects of some factors that influence the social control design. The chapter concludes by providing a summary of the chapter.

#### **5.1 Social Control Mechanism**

The data revealed that the parent firms and IJV primarily exercised social control through training, socialisation, communications, site visits, and various other factors that influenced the use of these social controls in LFZDC. These social controls and the antecedents are discussed below.

##### **5.1.1 Training**

One of the motives of the IJV formation for the local partner is knowledge acquisition and sharing, and training is considered as an essential means for facilitating knowledge sharing and developing the skills and expertise of the parent firms involved. The interview data revealed that the first form of training introduced in LFZDC, was an exchange programme and this was organised and sponsored by the Chinese government, with the support of CCECC-Beyond International Investment and Development Corporation Limited for the local parent firm and the local employees in the IJV. The

foreign parent firm government's involvement in the organisation of training is confirmed by the local parent firm's Managing Director:

*“Some years ago, before I started working here, they use to have exchange programmes, and the Chinese government sponsored it.” (Managing Director LWIL)*

The exchange programme entails the Chinese government and the foreign partner sending some of the local partner employees and the local employees in the IJV to China. The training was organised because they wanted the local partner and the local IJV employees to learn about the fundamentals of FTZ, while observing the activities in FTZs in China, especially the one that LFZDC is modelled after, which is explained in section 4.1.2. LFZDC Marketing Manager stated that:

*“Right from when the company started, we have had exchange programmes where we go to China for training... It is a one-sided thing; we go to different Free Zones in China and stay there for some time. The exchange programme is like a compressed summer school where they teach us the rudiments of running a Free Zone. You know we have some Free Zones in Nigeria but if you look at the ones that are performing well; you will see that LFZDC is one of the ones that are doing well because the management and the shareholders knew what they wanted right from the start of the venture.”*

As evident from the response above, the exchange programme is important for the local partner and the IJV because it provides a platform for them to have a clear understanding of how a FTZ operates, and also how certain tasks and activities are executed thereby learning by observation. The exchange programme was introduced by the Chinese government and the foreign partner based on the knowledge-based resources (intangible know-how and skills) contributed by them, as explained in 4.1.3. The exchange programme is seen as an effective mechanism to transfer context-specific and complex knowledge. This practice allows the local IJV employees and the local partner to access the foreign partner's tacit knowledge, where close interaction is needed to achieve that goal. However, the use of the exchange

programme by the Chinese government to influence knowledge transfer was stopped in 2009, due to financial reasons when the ownership structure and the name of the consortium changed.

*“The opportunity to visit China for the exchange programme and exposure later ceased because CALIL and the Chinese government claimed that they did not have the finance to sponsor such trips anymore.”  
(Engineer LWIL)*

Over time, other forms of training, such as in-house, expatriate, overseas, formal and informal and language training were gradually introduced by the foreign partner and the IJV management team. Some of the training is mandatory for the IJV employees, and some of the training is for specific departments. The local partners also benefit from this training because they send also their employees to attend. In the case of the training that is organised by the foreign partner, they send expatriates to the zone, and sometimes the IJV local partner employees are sent to China to get the necessary training. This is because the local parent firms lacked the knowledge on how to establish, run and manage a FTZ, and also an IJV. As a result of this, the foreign parent firm played a significant role in the transfer of knowledge to the local partner and the IJV. On the other hand, the training organised by LFZDC are conducted at IJV premises. The response from the IJV Manager captured this consideration:

*“We adopted some mandatory training for all the employees; this allows them to learn all the operation process and even the technical operation and thereby facilitate the enhancement of the IJV. For the more advanced task, the training were organised for specific departments that needed them.” (HR Manager LFZDC)*

In regard to the use of training in LFZDC, the foreign partner employee stated that:

*“We send down some expatriate to the zone to stay there for a while and train the employees there; the local partner also benefits from it as well because they send their employees to attend.” (Marketing Manager CALIL)*

The local partner Managing Director stated that:

*“There is a lot of cross-fertilisation going on in the zone when we send these people there for training; they have the opportunity to learn practical things and have some form of hands-on experience. Like I said earlier when we started the interview, the Chinese are responsible for the technical aspect of the venture, so they have able and capable engineers and employees so by sending our engineers there they will be able to transfer knowledge to them.” (Managing Director LWIL)*

The responses above reveal the training channels, which are the foreign partner and the IJV. The local partner was not involved in the organisation of the training due to their lack of knowledge on how to run and manage a FTZ and an IJV. The complexity of the task also played a role in the design of some of the training. Some of the tasks were difficult for the Nigerian employees and the local partner as they were not familiar with the tools, processes and systems. In the case of CALIL and the Chinese employees in LFZDC, the reverse was the case as they were familiar with the entire task that they were executing in the venture. LWIL and the local employees realised the challenge that they were facing in executing some task, and as a result, LFZDC and CALIL agreed to introduce specific training in order to help LWIL and the IJV local employees manage the task complexity. Certain tasks are only carried out by specific departments and do not involve the whole company, and as a result, the training was organised for those specific departments.

Furthermore, the training was designed by the IJV and foreign partner, based on the knowledge transfer motive of the IJV by the foreign partner. The local partner lacked the knowledge and expertise on how to establish, run and manage a Free Zone and also an IJV as explained in 4.1.2, while the foreign partner has the required knowledge and expertise. Thus, the foreign partner serves as a channel for knowledge transfer to the local partner and the IJV.

*You know the Chinese have vast knowledge about the technical aspect of the project, every day they come up with new things, so they are also here to teach us. It is a win-win situation; there are some Chinese led training for*



*the local employees; it is a training that will help with the industrial upgrade.” (Administrative Controller LFZDC)*

This is also emphasised by CALIL Marketing Manager:

*‘We have agreed to transfer all that we know to our partner so that they can stand on their own when the time comes because like you are aware that this contract is for 50 years and after that, we hand over to the Nigerian parties. So, we need to do all that we can to transfer, be it technology, managerial, operational and whatever knowledge you can think of that will help them be independent even when the contract ends.’*

The responses reveal that CALIL and LWIL had a mutual agreement from the inception of the IJV that one parent firm was going to transfer knowledge to the other parent firm. Also, LFZDC is made up of parent firms that are from two different countries with diverse national cultures, values, norms and languages, and this posed some challenges between the parent firms and also in the IJV. As explained in chapter 4 section 4.2.3 and 4.2.4, language differences posed a challenge in the inter-organisational relationship, where in some instances meaning was lost in translation because of the translators used by the foreign partner.

*“I think one of the issues was culture, you know we come from two different countries; it will take a lot of time for us to understand each other’s values.” (Managing Director LWIL)*

To address the language challenges that they were facing, the IJV Managing Director introduced language training in the IJV. The Chinese employees were not fluent in English, and the Nigerian employees were not fluent in Mandarin, this made communication a challenge in the venture. Based on this, the Managing Director introduced English, Mandarin and Yoruba language training in LFZDC, where the employees train each other after work. However, the language training was not compulsory for the employees.

*What I mean by cultural integration is that they try as much as possible to learn a lot about our culture, and we also try as much as possible to learn about their culture*

*too... He wanted the Nigerian employees to understand and speak Mandarin and the Chinese employees to understand and speak Yoruba as well. So, we the employees organise evening classes, the Chinese teach Mandarin, and the Nigerian employees teach them Yoruba and English.” (Legal Adviser LFZDC)*

This is also emphasised by the IJV Administrative Controller:

*“It was the Managing Director’s idea, you know most times we receive investors from China that come to the zone to find out about the investment prospect in the Free Zone and the development progress, and if you are very familiar with Chinese, they feel more comfortable discussing in Mandarin with themselves when they are in a meeting. So basically, the Managing Director wanted us to be able to communicate to some extent in Mandarin.”*

The local partner Strategy Manager had this to say regarding language training:

*“For example, I know that they have an initiative right now in the zone, the Nigerian employees learn Mandarin, and while the Chinese employees learn Yoruba and English. I mean it is not a formal, formal thing but it is an initiative that they are doing out of fun, but what you find at the end of the day during language training, you begin to try to understand the culture, our employees attend those language training whenever they can.” (Strategy Manager LWIL).*

The analysis showed that the management style of the Managing Director in LFZDC and the language and cultural differences between the foreign and the local employees in the IJV, influenced the use of language training in the venture. The IJV employees were able to learn each other’s language and culture, which in turn helped to ease communication between the parent firms and the IJV employees. This was introduced after the current Managing Director was appointed in 2013, who wanted to ensure that effective communication exists between the employees and the parent firms. Interestingly, the IJV Managing Director is Chinese, and one of the motives of the formation of LFZDC for the foreign partner is to have easy access to

the Nigerian market. The IJV Administrative Controller's response above, shows that the introduction of language training for the IJV employees was also based on the need to ease communication between the Chinese investors and the IJV employees, and thereby provide a platform for Chinese firms to internationalise into Nigeria.

Furthermore, based on the need for work ethics integration between the local and foreign employees in the IJV, they tend to also learn about each other by mimicking each other. The analysis revealed that the foreign partner exercised their influence on the IJV by introducing the Chinese work ethic to the IJV in order to improve work efficiency and enable the parent firms to achieve the objectives of the IJV.

*"We have a culture of being very punctual; if we ask you to come for a meeting by 7, try your best to be there by 6.55... The Nigerians have a different time I must say, I heard they call it African time, and that means they are always late, and this was always causing conflict between the Nigerians and us." (Engineer CALIL)*

The response below shows that the IJV Nigerian employee's view on work ethics in LFZDC:

*"In terms of work ethics, we took more of the Chinese partner's work ethics because when we realised for the venture to perform well, we had to take that part... Going back to the Chinese being sticker to time, if a Chinese colleague calls for a meeting let me say for 10 am, that 10 am is not 10.05 or 10:15, you know Nigerian time now, we are known for going for things late, and this was causing a lot of problems for us, but when you think of the people you are working with here, you have to change that mindset. So, I will say they have rubbed off on us in sticking to the time part. We have had to imbibe that work ethic even though they have different work ethics." (Administrative Controller LFZDC)*

*"You see this thing is done unconsciously. You will copy somebody, and before you know it, you will start behaving like them. I think that is what happened." (Strategy and Policy Implementation Manager LFZDC)*

The responses above show that the different work ethics were causing conflict between the local and foreign employees in the IJV. However, in order to resolve the conflict, the local employees in LFZDC unconsciously mimicked the foreign employees by going to meetings on time, thereby enabling and ensuring adoption of the same work ethic, which resolved the conflict.

In summary, provision of training is highly contingent on the resources to which the foreign parent firm had access, the change of the IJV leadership, task complexity, previous experience and expertise of the foreign partner, the need to transfer knowledge from the foreign parent firm to the local parent firm and the IJV, and the national culture of both parent firms.

### **5.1.2 Socialisation**

In the first three years of operation, LFZDC was using a small office space, with the Nigerian and the Chinese employees being allocated to separate sections of the office. Also, in the case of the living arrangements, the Chinese were living in the staff quarters, while the Nigerian employees returned to their respective houses after work. This created a barrier between the local and foreign IJV employees.

*“You know when we were in Victoria Island, we were using a rented apartment, and the level of interaction was limited, so to speak because we were not staying together. Then because of the size of the offices, it was like the Chinese were concentrated in a particular section of the office while the Nigerian had their section too. It was like we had two companies in one building”.*  
(Administrative Controller LFZDC)

The response above implies that the interaction between the Nigerian and Chinese employees in the IJV was limited due to the living arrangements and also the office space arrangement. This issue was not carefully considered at the inception stage of the IJV. This hindered relationship and trust building between the two partners and also knowledge transfer from the foreign IJV employees to the local IJV employees.

In the fourth year of operation, the IJV moved from the rented property to its own office space, and staff quarters were made available to all employees. In terms of the office space, both the Nigerian and Chinese employees that work in LFZDC started to share the workspace. Furthermore, the living arrangements also changed because all the LFZDC employees moved to the designated accommodation facility.

*“After these offices were built, both Chinese and Nigerians started staying and sharing the same office; we have an open plan office where everybody work together in the same office. Also, when the staff quarter was built we had to move in, all the Nigerians had to move in from their respective homes, we only go home to our families on weekends... After the move, it was much easier because we live together and then we can interact more. Now we share office, take a walk together after work, chat, we play games together. So, we do socialise.” (Marketing Manager LFZDC)*

The response above implies that the change in the workspace and living arrangements created a platform for both the Nigerian and Chinese employees in LFZDC to interact and socialise. Through socialisation, the employees were able to learn about each other’s culture. Working alongside each other has proven beneficial to the IJV, as despite the language differences, the employees have begun to explain to each other how they live in their respective countries and how they relate with other people and they have built a rapport with each other.

In the sixth year of operation, that is 2012, there was a change in the IJV Managing Director. The data showed that different people have different management styles, and they have a different focus in terms of the development of the venture. For example, the previous Managing Director was more focused on attracting investors to the zone, but the current Managing Directors is interested in creating a conducive work environment, building a relationship between the LFZDC employees and the parent firms, while also attracting Chinese investors to the zone.

*“The former Managing Director was concentrating on attracting investments into the zone, and that is what makes him different from the current Managing Director. The current Managing Director in as much as he is trying to bring investment into the zone, he is also paying attention to how we work together and socialise for the fact that we are from different backgrounds he wants everybody to work well together. The current Managing Director is the initiator of the games that I spoke about that is the sporting activities.... The Managing Director of the organisation is interested in a collaborative relationship between the partners involved and also the employees.” (Marketing Manager LFZDC)*

The management style played a role in building a working relationship between LFZDC employees. Although the previous Managing Director did not pay attention to socialisation, the current Managing Director introduced social activities, such as retreats, sporting activities, Thank God It's Friday (TGIF), Christmas and New Year parties, Independence Day celebrations and other religious/cultural festivals that boost socialisation among employees. The parent firm employees were also invited to social activities whenever they visited LFZDC.

*“The TGIF is organised at least twice a month because it's not all Fridays that all the employees stay in the quarters. You know it is not all about work, we need to know the people that we are working with. For example, there is this employee; her name is Carol she is a Nigerian employee, it is as a result of socialisation and personal interaction with her I can tell you how many children she has, what they do and also what they like. There is this other lady her name is Sue; she is a Chinese employee; I got to know that she grew up in Australia and has travelled to 15 countries.” (Marketing Manager LFZDC)*

This is also emphasised by the foreign partner's Engineer:

*“We usually have retreats where LWIL, CALIL and the Lagos State Government representatives come down to Lagos, and they are all lodged in a hotel; it is usually a 2-day event. During the retreat, the first night is the gala and the next day it is just for everybody to chat. Retreats enables interactions among employees, and they share ideas.”*

The local partner's Strategy Manager also commented on socialisation:

*"We usually have social activities where our foreign partners are invited, the IJV management team as well, and this is usually a casual or informal activity organised. Where we can all meet and interact, learn more about the zone."*

The responses above revealed that based on the change in leadership, there was an introduction of various forms of socialisation in LFZDC, which also made knowledge transfer between the foreign and the local employees possible. The difference in the national culture of the parent firms and LFZDC employees, facilitated the use of cultural celebrations as an effective means for employees from all parties to interact, share ideas and exchange their culture and values. Also, such socialisation created an opportunity for the IJV employees, the local and foreign parent firm to ask questions and get clarification and share their experiences and ideas on work-related issues.

Another important form of socialisation that was introduced by the parent firms through the management team of the IJV, was the eating arrangements for the employees in the venture and parent firms when they visited. The foreign parent firm stated that in their culture, they always eat together, but the Nigerian partners do things differently. In order to foster team bonding, the Nigerian employees were encouraged to have meals together with their Chinese counterparts.

*"I told you about the Canteen, we all take a break from 12 to 1:15 pm every day; so, our work is to walk in there and eat and chat. I have to emphasise that everything that we do here both the Chinese and the Nigerian employees do it together." (HR Manager LFZDC)*

This is also emphasised by the local partner Engineer:

*"Another thing that I have noticed there is that because the work is done on the camp, most of the key employees live on the camp and they have set mealtime which reflects first the culture of the partner; it also reflects discipline."*

During the site visits the researcher confirmed the eating arrangements, through personal observation, and was able to have a first-hand idea/knowledge of how interactions occurred.

Furthermore, socialisation was also introduced based on the need for the parent firms and the IJV employees to build trust between them. Trust is an important element in the IJV relationship. The partners in LFZDC started without any prior relationship with each other, but they had some general knowledge as they had done due diligence. After the operation started in the IJV, the parties involved realised that they needed to trust each other more, in order for them to perform better and achieve the IJV goals. Trust building between the parent firm did not happen immediately or spontaneously. This was further hindered by the fact that the foreign parent firm did not keep to their part of the contract, as explained in chapter four section 4.2.3. The foreign parent firm was expected to send qualified and experienced people to work in the IJV, but they did not do it. This affected the local parent firm's trust in the foreign parent firm. However, when the foreign partner noticed that sending unqualified people to the IJV had a negative impact in terms of trust-building, they took decisive action and replaced unqualified employees with experienced and qualified personnel, as explained in section 4.2.3. From this point, the local parent firm were more convinced of their commitment and intentions, and they began to trust the foreign partner.

*“Trust is something you build, and with time it gets better. It is a mutual thing; if I do business with you and this transaction went well, it will make the next transaction a lot more smoother.” (Marketing Manager CALIL)*

On the other hand, the local partner stated this:

*“The point is that did not happen overnight, that trust was not always there; it is only now that we say we trust one another to some extent.” (Managing Director LWIL)*



The IJV Legal Adviser stated that:

*“We did not trust ourselves when we were in VI office because you know there was not much interaction, the Chinese had their office, and the Nigerians had their own. Things got better when we moved to the zone because now we are all working together, we even share the same office space, a Chinese can be sitting opposite a Nigerian in the workspace and living in the same place.” (Legal Adviser LFZDC)*

Overall, the responses revealed that both parent firms and the IJV employees lacked trust from the inception of the IJV, but they wanted to build stronger trust since this would enhance cooperation and goal congruence. Through the use of socialisation in LFZDC by the parent firms and the IJV employees, they found themselves consciously and unconsciously interacting with each other and they got to know each other better. They were able to develop trust because all the parties were having opportunities to communicate or interact with each other, not only on a professional level but also on a personal level. Through the use of socialisation, the employees were able to develop more effective working relationships, and were even invited to their colleagues' homes, thus showing increased trust and strength in their friendship.

In summary, a combination of the leadership in the IJV, the need to build trust between the parent firms and the IJV, transfer knowledge from the foreign parent firm to the local parent firm, and the national culture of both parent firms influenced the use of socialisation by the parent firms and the IJV.

### **5.1.3 Communications**

In order to achieve the benefits of collaboration, effective communication between the parent firms and the IJV management team is essential as this mechanism captures the utility of the information exchanged. Lack of communication creates a gap between the parent firms and the IJV. The gap

will hinder the flow of information, which may make it harder to understand the vision of parent firms for the IJV. CALIL, LWIL and the IJV communicate on a regular basis through phone calls, emails, letters, and face-to-face or virtual discussions. All the parties involved use this medium to communicate in order to avoid delays in decision-making. Ineffective communication may delay decision-making and in turn, slow down operations due to the need to wait for approval.

*Communication is an on-going concern; we do not have a particular pattern. We communicate daily, we communicate weekly, it depends on if there is urgency in what they need to send out, they communicate, they request for data, they request for information, they ask questions to get clarifications on stuff... We usually communicate through means like letters, email, phone calls. We do it this way so that we will have prompt response, different circumstances will require various means like if I need something to be done urgently or I need them to look at a letter urgently what will do is to call them as soon as I send the letter out so that they can look out for it.” (Legal Adviser LFZDC)*

The various forms of communication used by the foreign partner and the foreign IJV employees, serve as a tool for transferring knowledge to the local partner and local IJV employees. It also enables them to make decisions on time and encourage transparency between the parent firms. Communication through brainstorming and idea-sharing brings about knowledge transfer and creation of new knowledge in the IJV. Based on the organisational knowledge, the Chinese partner tries to influence the IJV employees and the local partner’s thinking. LWIL is dependent on CALIL in terms of knowledge, as this was clearly stated at the negotiation stage. With effective communication in LFZDC, both parent firms can achieve that goal. This resonates with the responses below:

*“We normally have discussions every time we visit the zone. When we visit the zone, the Nigerian partner and us, with the IJV management team, present our ideas and thoughts. During this discussion, we have what is called brainstorming. We are very transparent with each other, so during that discussion, we do not hoard*

*knowledge, we share. We ensure that the discussion is in a relaxed, informal environment.” (Strategy Manager CALIL)*

*“When the partnership is quite healthy you will be able to rub minds; there is a saying “two heads are better than one”, so communication is just a way to stimulate growth, share ideas, and look for a better way to improve on what we are doing. See we can only build healthy relationships and share ideas if we can communicate well, interact better, if we are free with each other irrespective of where we are from either from China or Nigeria, I am sure we will be able to achieve whatever goal we set to achieve.” (Legal Adviser LWIL)*

The responses above show that knowledge was transferred between the employees in the venture, unconsciously through interactions and consciously through meetings and training. The meetings created an avenue for the employees in the IJV to get clarification, share ideas and knowledge. Furthermore, communication is critical in trust-building. The foreign and the local parent firms and the IJV employees used communication as a tool for trust-building. Continuous communication between the parties involved encouraged trust-building; it helped strengthen the positive perception of the trustworthiness of the parent firms. However, communication was not effective in the IJV at the inception stage of the IJV, because of the difference in languages. At the initial stage in the IJV, translators were used but this also posed challenges as sometimes meaning was lost in translation, which hinders the quality of information transferred from the foreign partner to the local partner and vice versa. From the observation of the IJV site, communication difficulty based on language differences remains a challenge for the parties involved, however, it seems to be much better compared to when the IJV started.

Also, during a visit to the IJV, the researcher observed that the local and foreign parent firms and the local and foreign employees in the IJV have different facial expressions when they are communicating. The foreign parent firm and the foreign employees in the IJV always keep a straight face during

meetings, and as such the local parent firm and the local employees in the IJV cannot interpret how the information communicated is received.

In summary, the use of communication between the parent firms and the IJV was influenced by the need for knowledge transfer and trust-building between the parent firms and IJV.

#### **5.1.4 Site Visits**

Different from other social controls used in LFZDC, site visits have been used from the inception of the IJV by both parent firms, the Chinese and the Nigerian government on a regular basis. During a site visit, the parent firms have the opportunity of spending two or more days on the IJV site, because they have their staff accommodation on the IJV site. Both parent firms use site visits to ensure that there are no discrepancies in terms of the description and expectations of the site, versus what is actually happening on the site. This resonates with the report from the LFZDC newsletter in August 2013 on the use of site visit by the foreign partner:

*“On 20th August 2013, a delegation led by Mr Zhang Zongyan, the President of CRCC, visited Lekki Free Zone. The Managing Director, Deputy MD, Commercial Controller, Engineering Controller and all the employees of LFZDC warmly welcomed the CRCC President and his delegates. Accompanied by Mr Chen Xiaoxing, MD of LFZDC, the delegation visited construction sites, staff residential camp and some enterprises within the zone, in order to know the progress of ongoing projects and if they are meeting their expectations.”*

The use of regular site visits was as a result of the need to check and monitor the progress of the development of the zone, and also ensure that the quality of the work being carried out is maintained. This was very important to LWIL, as in the early years of the IJV when LWIL and the LSG visited the IJV site, and they noticed that the quality of the work executed was not up to standard. This led to halting construction on the IJV site, which also caused some friction between members of the consortium, as explained

in section 4.1.2. Therefore, the local parent firms were able to notice the irregularities in terms of the quality of work executed in the IJV site.

*“I visit the site at least once a month so that I will have a clear picture of the progress of work at the site and the quality of work done. I was not here, but I was told a company was using inferior products on the site, so you can imagine if nobody was visiting the site, we would not have noticed it.” (Managing Director LWIL)*

Furthermore, from the inception of the IJV, the data revealed that there is active Nigerian and Chinese government involvement in the IJV to strengthen the China-Nigeria relationship and collaboration, which one of the motives for the IJV formation. Consequently, the foreign and the host governments make regular site visits. Also, the LSG contributed resources to the venture as they provided land and \$60 million, and the foreign partner also contributed key resources as explained in section 4.1.4. To achieve this motive and also protect the resources contributed, the Chinese and the Nigerian government officials visit LFZDC regularly in order to show their level of involvement and commitment to the development of the FTZ, monitor the progress on the development of the LFZ and protect their investment. The UNDP Report (2015) reflects the use of site visits by the Chinese government.

*“The Chinese Government has been showing a lot of interest in making the Lekki Free Zone a success story within China-Africa economic relations. There is now a closer relationship between the Chinese Embassy in Nigeria and the LFZDC, and there are frequent visits and exchanges of views between Nigerian representatives and stakeholders from the CCECC Headquarter in Beijing.”*

The reports from the LFZDC newsletter and brochure show the level of involvement by the Nigerian government through the use of regular site visits

*“The ministers, governors and government officials at various levels from both China and Nigeria have paid frequent inspection visits to LFZ for the purpose of offering their support to the project.” (Lekki Free Zone Investment Brochure 2019)*

*The Honourable commissioner was familiarised with the developments of the Free Zone through a site visit to the zone. She thereafter expressed deep satisfaction and great enthusiasm with the economic activities in the Zone. She reassured the LFZDC Management of the strong support and commitment of the Lagos State government to the complete fulfilment of the Free Zone project.” (LFZDC Newsletter 3rd September 2019)*

Also, the local partner employees are sent to visit the site to monitor and supervise the work being carried out by the expatriate or the IJV employees. Through the site visits, they have the opportunity of learning about a specific task that has not been executed in their company before. Thus, while visiting the site, LWIL employees shadow the foreign employees or expatriates that are undertaking a complex task, as knowledge can be transferred to the local partner through observing.

*“Anytime that they want to do any major project, some people have to be sent down there based on your experience. I was sent to visit the site when they were working in the power plant to check that they were working according to the specifications that we have on ground. But you know the funny thing that happened, during that visit I spent a couple of days there and I had the opportunity of interacting with them and learning from the expatriates that were sent to work on the power plant because that was my first time on working on a power plant and I know it is a very complicated task to execute.” (Engineer LWIL)*

The response above revealed that through site visits, the local parent firm employees get to acquire knowledge from the foreign expatriate and the IJV employees through interacting and observing the tasks that are executed.

In summary, the use of site visits by the parent firms, was influenced by the the Nigerian and Chinese government’s need to monitor the activities and the quality of work being carried out and showcase government involvement and commitment to protecting their investment. For the local partner, the use of

site visits was also attributed to their intention to learn from the foreign partners/employees about complex task performed on the IJV site.

**Table 5.1 Summary of Factors that Influence the Use of Social Control in LFZDC**

<b>Social Control</b>	<b>Organisational Factors</b>	<b>Relational Factors</b>	<b>External Factors</b>
Training	<ul style="list-style-type: none"> <li>• Change in leadership in the IJV.</li> <li>• Resources contributed by the foreign parent firm.</li> <li>• Task complexity.</li> </ul>	<ul style="list-style-type: none"> <li>• Knowledge transfer from the foreign parent firm to the local parent firm and the IJV.</li> <li>• Previous experience and expertise of the foreign parent firm</li> </ul>	<ul style="list-style-type: none"> <li>• National culture of both parent firms.</li> </ul>
Socialisation	<ul style="list-style-type: none"> <li>• Leadership in the IJV.</li> </ul>	<ul style="list-style-type: none"> <li>• Trust building between the parent firms and IJV.</li> <li>• Knowledge transfer from the foreign parent firm to the local parent firm and the IJV.</li> </ul>	<ul style="list-style-type: none"> <li>• National culture of both parent firms.</li> </ul>

Communication		<ul style="list-style-type: none"> <li>• Knowledge transfer from the foreign parent firm to the local parent firm and the IJV.</li> <li>• Trust building between the parent firms and IJV.</li> </ul>	
Site Visits	<ul style="list-style-type: none"> <li>• Task complexity.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor the progress in the IJV.</li> <li>• Knowledge transfer from the foreign parent firm to the local parent firm and the IJV.</li> <li>• Protect the parent firms' investment</li> </ul>	

## 5.2 Conclusion

In conclusion, this chapter provided a detailed explanation of the social control used in LFZDC, which are training, socialisation, communication, and site visit. The findings in this chapter showed that resource contribution, change in leadership, task complexity, previous experience and expertise of the foreign partner, knowledge transfer from the foreign to the local partner, trust-building, the need to monitor and protect the investment, and national culture of both parent firms influenced the use of social control in LFZDC. The forthcoming chapter presents the discussion of the findings.



## **CHAPTER 6**

### **DISCUSSION**

#### **6.0 Introduction**

In chapter four and five, the case study was presented with a particular focus on exploring the control mechanisms used, the factors that influence the use of these controls and the combination of the factors. This chapter provides a summary and discussion of the findings in relation to the relevant literature. The table below provides an outline of key findings and will be used as a guide for the remaining of the chapter.

**Table 6.1 Case Analysis of the Control Mechanism Used and the Factors**

		<b>Lekki Free Zone Development Company</b>		
<b>Core construct [From the literature]</b>	<b>Sub-construct (From the literature)</b>	<b>Core themes [From the data]</b>		
		<b>Organisational Factors</b>	<b>Relational Factors</b>	<b>External Factors</b>
<b>Formal Control</b>	<b>Ownership</b>	Resources contributed by each parent firms Resource dependency of the parent firms Bargaining power of the parent firms	Previous experience of the foreign parent firm	Legitimacy issues faced by the foreign partner
	<b>Contract</b>		The conflict between the foreign and the local employees in the IJV	Economic factor in the host country Institutional forces of the host country
	<b>The appointment of Board of Directors</b>	Resources contributed by the parent firms	Previous experience of the foreign parent firm Knowledge transfer from the foreign parent firm to the local parent firm and the IJV	Institutional forces of the host country Legitimacy issues faced by the foreign parent firm
	<b>Meetings</b>		Trust building between the parent firms and the IJV Monitor the progress in the IJV	Economic factor in the host country National culture of the parent firms Legitimacy issues faced by the foreign parent firm

<b>Social Control</b>	<b>Training</b>	Change in leadership in the IJV Task complexity Resources contributed by the foreign parent firm	Knowledge transfer from the foreign parent firm to the local parent firm and the IJV Previous experience and expertise of the foreign parent firm	National culture of both parent firms
	<b>Socialisation</b>	Change in leadership in the IJV	Trust building between the parent firms and the IJV Knowledge transfer from the foreign parent firm to the local parent firm and the IJV	National culture of both parent firms
	<b>Site Visits</b>	Task complexity	Monitor the progress in the IJV Knowledge transfer from the foreign parent firm to the local parent firm Protect the parent firms' investment	
	<b>Communication</b>		Knowledge transfer from the foreign partner to the local partner Trust building between the parent firms and IJV	

## **6.1 Factors that Influence Formal Control Design**

The analysis of the case study revealed the various organisational, relational and external factors that influenced the use of formal control in the IJV. This is further discussed below.

### **6.1.1 Ownership Structure – Organisational, Relational and External Factors**

The findings showed that the ownership structure of LFZDC is 60/40, with the foreign parent firm having the majority equity stake and also being the dominant partner in the IJV.

In the case studied, the division of equity is largely related to the resources contributed by each parent firm, and this includes various property-based and knowledge-based resources, such as land, technology, local knowledge, government connections, managerial capabilities, knowledge and skills, and finances (Miller and Shamise 1996; Chen et al. 2009; Kumar 2011). For instance, the foreign partner has majority ownership in the IJV, and this is because they contributed the majority of the valuable resources including both financial and managerial resources in the venture. At the negotiation stage, the local partner stated that they lacked key resources needed in the IJV; nevertheless, they still had some financial resources, local knowledge, a government network and connections, and land, which are valuable from the foreign partner's perspective. The resources contributed by both partners are complementary because each partner contributes specific resources that the other partner is lacking, and as such, a relationship with a high level of interdependency exists between the parent firms. Therefore, the lack of critical resources for running the free trade zone limited the local partner to a minority shareholder in LFZDC. This finding aligns with the basic RDT assumption that the partner able to contribute more critical resources, will have greater control (Chen et al. 2009).

The analysis demonstrates how the parent firms' bargaining power also influenced the IJV equity decision. In LFZDC, the Chinese partner was aware that the Nigerian partner was desperate to find a partner that was willing to

form an IJV with them. Thus, the foreign partner was able to bargain for more equity in the IJV. Also, the bargaining power of each parent firm stems from the critical resources contributed. The Chinese partner contributed the majority of the valuable resources, and as such, they are the dominant partners in the IJV. However, arguably, the Nigerian partner also has bargaining power in the venture. This is because firstly, the Chinese partner lacked the legitimacy of a Western partner that the Nigerian partner had initially been seeking. Secondly, LFZDC operates in Nigeria, which is an EM, and it is characterised by weak formal institutions and organisations that rely on business networks (Xin and Pearce 1996; Luo 2005). While the Chinese partner has some, but limited, access to a local business network, this put the Chinese partner in a relatively weak position. Finally, the Nigerian partner contributed government connection/networks, which is highly important to the successful running of the IJV. Therefore, resources contributed by the local partner and the legitimacy challenge gave the Nigerian partner a significant advantage from the negotiation stage to the later stage of the venture. Consequently, they were able to successfully negotiate a 40% equity stake in LFZDC, despite the fact that the Chinese partner contributed financial and managerial resources that reflected much more than their 60% equity share. Yin and Zhang (2012) argued that foreign firms can overcome legitimacy-related challenges through the formation of IJV. Perhaps because of this, the Chinese partners made the compromise and didn't stick with the initial equity share they were seeking. Also, they recognised the importance of the Nigerian government's involvement in the IJV, particularly in terms of their IJV objectives, which to a large extent is linked with the Chinese government's intention – using the LFZDC as a hub to support other Chinese firms' business expansion into Nigeria.

Similarly, the findings further show that the previous experiences of the foreign parent firm, influenced the design of the ownership structure of the IJVs. In the IJV, the local partner has no experience, while the foreign partner, which is made up of a consortium of four Chinese companies had previous experience of developing, managing and running a Free Zone, JV and other forms of inter-organisational arrangement. The experience of the

foreign partner is an important resource to the local partner. Thus the local partner, even with strong commitment and support from the Nigerian government, did not push hard for a higher equity share.

The findings show that the design of the ownership structure in IJV is simultaneously influenced by various organisational, relational and external factors. In the case studied, the resources contributed by each parent firm and the previous experience of the foreign parent firm, played a role in determining the ownership structure. At the same time, LFZDC, which is an emerging market IJV, was also influenced by the legitimacy challenges faced by the foreign partner, the bargaining power and resource dependency of the parent firms. Existing studies have suggested that the design of IJV ownership structure is influenced by (i) resource contribution, (ii) resource dependency of the parent firms (Chen et al. 2009; Luo et al. 2001; Kumar 2011; Mohedano-Suanes and Benavides-Espinosa 2013; Piaskowska et al. 2019), (iii) previous experience, and (iv) legitimacy challenge faced by the foreign partner (Lu and Xu 2006; Shah 2011). This finding is broad in line with existing empirical studies using a qualitative (case study) approach. For example, Owen's (2010) study revealed that factors not only within the organisation (strategy, capital availability/ requirements, strategic resources, managerial risk and inexperience), but also the partner (cooperative traits and bargaining power) and the host market, determined the JV equity ownership. This research lends further support to the view that a combination of factors within the IJV, within the IJV relationship and the IJV external environment is related to the design of equity ownership structure in EM IJV.

### **6.1.2 Contract - Relational and External Factors**

The findings reveal that the parent firms use formal contracts and signed a 50-year legal contract. The content of the contract includes structure, scope and objectives, financial contribution, goals and plans for achieving those goals, the partners' mutual responsibilities, disputes, confidentiality agreement and financial incentive system, which, according to the relevant literature, is standard (Gong et al. 2005; Luo 2007; Duplat et al. 2018).

The findings reveal that the policies and regulations of the host country influenced the design and adjustment of contract in the IJV. The IJV operates in Nigeria, an EM characterised as a highly complex and dynamic country, but is also known for its government instability (Luo 2005; Bello-Schünemann and Moyer 2018). Specifically, the analysis chapter showed that at the formation stage, the foreign parent firm did not take the local content regulation into consideration. Over time, there was an imbalance in the number of local and the foreign employees in the venture and this was because there was no commitment by the Chinese partner to use local employees in the venture. However, to solve the problem, the local content regulation in the Free Trade Zone industry was incorporated in the IJV contract, which clearly stated that foreign employees should not be recruited to carry out tasks that can be executed by local employees. This is in line with institutional theory that emphasises the need for firms to conform to the institutional environment of the host country (Yiu and Makino 2002). Thus, the parent firms and the IJV management adjusted the contract to fit the Nigerian local content regulation for Free Trade Zones in Nigeria. Therefore, this study confirms Owen et al.'s (2013) study that the institutional forces of the host country influence the design of a contract of an IJV that operates in a highly regulated industry.

Furthermore, the findings revealed that the turbulent economic situation in the IJV host country played a significant role in the adjustment of the IJV contract. TCT states that there are uncertainties in terms of the economy of the IJV host country, hence the greater reliance on formal control (Meyer and Wang 2015). LFZDC operates in a market that is characterised as unstable, with constant economic fluctuations and uncertainties. Li et al. (2013) discovered that managing IJVs formed in emerging economies is particularly challenging due to the turbulent economic environment. Thus, the economic recession in Nigeria led the parent firms to renegotiate the financial contribution of each partner, and as such, an adjustment had to be made to accommodate the change in the economic position of the host country. Such economic factors can directly influence the contract modification (Yan 1999). In this case, the signing of a second tripartite agreement was made after 10

years of the IJV inception, with increased contribution from both partners. Based on the contract adjustment, the Chinese financial contribution was increased to \$300 million while the Nigerian parent firm was increased to \$125 million.

The findings show that a combination of factors within the IJV relationship and factors in the IJV external environment influenced the contract design and adjustment in the IJV. IJV scholars such as Kamminga and Van der Meer-Koistra (2007) found that the institutional factors, especially government regulations may lead to uncertainty in the IJV which will, in turn, change the IJV control structure. Consequently, Luo (2002) argue that during contract design, both term specificity and contingency adaptability should be considered. Also, Le (2009) suggested that the changes in the control structure are noted to be a symbolic reaction to economic changes at both the societal and organisational level as it is an attempt to counteract what is occurring in the economy so that it does not affect the performance of the firm. These considerations, as stated, reinforce the relevance of the findings in this section of the research. More precisely, the findings suggest, that in EM IJV, a combination of conflict, institutional forces and the economic position of the host country, which are factors within the external environment, but also relational factors influence contract design and adjustment.

### **6.1.3 Appointment of the Board of Directors - Organisational, Relational and External Factors**

This study establishes that the board composition is a reflection of the equity ownership of the parent firms in the IJV. The parent firms' equity share directly affects the representation on the IJV board in terms of the number of the members on the board, which is consistent with the earlier empirical studies by Chalos (1998) and Child and Yan (1999). Parent companies are keen on appointing their people to occupy key positions in IJVs (Killing 1983). The findings indicate that in this case, the resources contributed, influence the appointment of the board of directors. As demonstrated in



LFZDC, the Chinese partner contributed the majority of the key resources, with a 60% equity in the venture, the findings reveal that based on their equity contribution, the foreign partner occupied key positions in the venture, including the Managing Director, Engineering Controller and Commercial Controller positions. The higher the resource contributed by the parent firms, the higher the percentage of their board members. In this case, there are five board members from the Chinese side with three executive directors and two non-executive directors, while on the Nigerian side, there are two executive directors and two non-executive directors. This is consistent with early research by Leksell and Lindgreen (1982) that found equity ownership of JVs affects the number of members on JV's board of directors. This finding is supported by Li et al.'s (2013) view that the equity structure of IJV parent firms has an impact on the appointment of the board of directors.

The findings demonstrate that previous experience of parent firms also influenced the appointment of the IJV board of directors. The foreign parent firm, because of their prior experience, selected and appointed experienced managers to sit on the board (Lai et al. 2014). Specifically, in the case of LFZDC, the Chinese partner occupied the key position on the board as they have previous involvement in the development of Free Zone, JVs, alliance and other forms of inter-organisational relationships. As observed in this case, the local partner does not have any experience or expertise required in managing this type of IJV. The foreign partner's previous experience in developing Free Zones lends confidence to the local partner that they will be able to achieve their goal (Child 2002) as such the local partner did not make any objection to the appointment of key IJV managers (e.g. Managing Director, Engineering Manager and Construction Manager). This finding is consistent with the findings of Kumar and Seth (1998) that, "directors and senior managers of the IJV are likely to be relatively well positioned to generate essential resources if they have prior experience and are networked into the parent company" (p. 581).

Furthermore, the findings revealed that the need for knowledge transfer from the foreign parent firm to the local parent firm, partly influenced the appointment of the board of directors. This is because one of the main

motives of the formation of LFZDC for the Nigerian partner is knowledge acquisition from the Chinese partner. Thus, the foreign partner appointed their people to occupy critical positions on the board in order to be able to support and oversee the knowledge transfer to the local partner. The arrangement was intended to help the local parent firms on the board, and also help the local managers and local employees to learn about Free Zone management skills from the foreign board members and the managers (Wang et al. 1998). As observed, this was crucial in this case as the Nigerian parent firm clearly stated that they did not know anything about developing, managing and running a Free Zone or IJV. Therefore, the participation of the foreign partner on the board through the positions they occupy, is very critical as it enables them to provide advice, expertise and knowledge to the local partner and their appointees (Björkman 1995; Goodall and Warner 2002). Therefore, given the needs of the local partner, the foreign partner occupying the key positions on the board was agreed without further challenges. This is consistent with organisational learning theory, which states that the intention of acquiring relevant knowledge from, and transferring it between each other can influence IJV controls (Yan and Child 2003), which supports Park et al.'s (2007) study that active managerial involvement of the foreign partner in the IJV has a strong influence on knowledge acquisition by the local partner in IJVs.

The findings also unearth and explain that the Nigerian institutional forces influenced the appointment of the board of directors in LFZDC, specifically the chairman of the board of directors' position in this case. The foreign partner initially believed that being the majority owner in LFZDC gave them the leverage to appoint the chairman of the board. However, they had to give the position to a Nigerian because the regulation that governs the industry clearly states that the board chairman has to be a Nigerian. The chairman is the legal representative of the IJV in Nigeria, and many legal documents need his/her signature. The different chairmen appointed at different times of the LFZDC lifecycle, have been well-connected people, which helps to enable smooth IJV dealings with the local bureaucracy (Tretiak and Holzmann 1993), which is in line with institutional theory. As such,

institutional forces of the host country are largely related to the nomination and appointment of the chairman of the board of directors.

Overall, this finding adds to the body of the IJV control literature in the following way: in the EM IJV, a combination of organisational (resources contributed by each parent firm), relational (previous experience and knowledge transfer) and external factors (institutional forces) influenced the appointment of the board of the directors.

#### **6.1.4 Formal Meetings - Organisational, Relational and External Factors**

The findings of this study indicate that the parent firms and the IJV management team use different forms of meetings, ranging from board meetings to strategy meeting to departmental meeting, in the IJV. These meetings were used right from the negotiation stage to exchange different types of information between the parent firms and the IJV and also discuss issues. For instance, in this case, the board meetings provided opportunities for the parent firms and the IJV to keep important matters under appropriate review and to keep all parent firms adequately informed (Schaan 1988). In line with earlier studies (Shenkar and Zeira 1992; Forbes and Milliken 1999), the findings have uncovered and explained that one of the reasons for the use of meetings is based on the need for the parent firms and the IJV to build trust between the respective parties involved. As the parent firms are from different countries, there is a less commonality, because a cultural distance exists between the parent firms (Robson et al. 2008). The language differences between the parent firms created communication problems during meetings (Gao 1998). The cultural distance created a disadvantage with regards to the level of trust in the relationship. For example, in LFZDC, the Nigerian partner carried out due diligence and that helped them to build some level of trust between each other at the initial stage of the formation. Over time, the parent firms, and the IJV, used different forms of meetings, and this facilitated the settings for the parent firms to make up and adjust their perceptions about each other. Therefore, the findings validate those of

existing studies that suggest the use of meetings by the parent firms and the IJV is influenced by trust building (Boersma et al. 2003).

The results of this research also indicated that the economic situation of the host country influenced the use of meetings. As earlier explained in section 4.2.2 and section 4.2.4, Nigeria is characterised as an unstable economy. In 2016, there was a recession in the host country and because of that, there was a fall in the exchange rate (Agri et al. 2017). Consequently, the parent firms and the IJV management had to have impromptu meetings and board meetings in order to renegotiate the capital contribution of each parent firm. This was important because of the exchange rate fall, the original financial contribution of each partner was now not going to be sufficient for the development of the Free Zone, which is a capital-intensive project.

This research revealed that a combination of the national culture of the parent firms, the need for the partner to build trust and the economic situation of the host country facilitated the need for the use of meetings in the EM IJV. The findings indicated that in order to bridge the gap that exists, meetings are held to make the parties involved in the IJV build a clear picture of the goals, values and strategies that are used in the IJVs. Also, the meetings were used as a measure to review and monitor the progress and performance in the IJVs. Therefore, the need for meetings in this type of IJV is influenced by a combination of organisational, relational and external factors.

## **6.2 Factors Influencing Social Control Design**

The findings reveal that the parent firms and the IJV use different forms of social control, which are influenced by various organisational, relational and external factors. A detailed discussion is provided below.

### **6.2.1 Training - Organisational, Relational and External Factors**

An exploration of the findings chapters reveal the various forms of training used in the EM IJV, which includes in-house training, exchange programme,

language training, expatriate training where expatriates are sent to the IJV premises and the local parent firm learning through mimicking the foreign employees in the IJV. Some of the training are mandatory for all employees, and some are department specific because they are only relevant to specific people in the organisation.

However, the findings reveal that in this particular case that involves two EM parent firms, the resources (knowledge) contributed by the foreign parent firm, and specifically the need to transfer knowledge to the Nigerian partner, influenced the introduction of training by the foreign partner and the IJV. Applying RDT, the theory states that for organisations to survive in a competitive environment, they have to depend on each other (Pfeffer and Salancik 1978; Yan and Gray 1994; Chen et al. 2009). Hence, the Nigerian partner is heavily dependent on the Chinese partner in terms of knowledge acquisition. The training is mostly organised by the Chinese partner and the IJV for the local employees and the Nigerian partner. This is because the Chinese partner contributed the majority of the knowledge-based resources (technological, operational and managerial expertise and previous experience) (Miller and Shamise 1996). This is in line with Yan and Gray's (1994) study, which shows that the primary knowledge contributed by foreign partners in IJVs includes advanced technology, management expertise and global support. Therefore, the Chinese partner was able to take charge of the training because they are transferring their resources to the Nigerian partner and the IJV. They can pool their tacit knowledge into the IJV and gradually translate it into explicit knowledge (Steensma and Lyles 2000). The training was organised by the foreign partner because some of the tasks was too complex for the local employees to execute and they were not familiar with some of the tools, processes and systems used in the IJV. This highlights the significant role the foreign partner plays in enabling the local partner to achieve its knowledge acquisition motive.

This research highlights how the IJV uses training based on the need to transfer knowledge, from the foreign parent firm and the foreign employees in the IJV to the local parent firm and the local employees, in the IJV. This social control served as a tool for the parent firms to leverage on the different

knowledge that each parent firm has and constantly supplement the knowledge needed by the employees. As demonstrated in LFZDC, one of the weaknesses of the Nigerian partner was that they lacked the knowledge of developing and running Free Zones, and as such, the Chinese partner agreed to transfer knowledge to them. The Chinese government considered LFZDC as a hub for supporting Chinese investment into Nigeria; therefore, upgrading the skills of local employees and firms was considered beneficial to the Chinese investors. Also, transferring knowledge without attached constraints can be seen as goodwill. This will help the IJV partner relationship and the Nigerian and Chinese firms in general. The host made use of expatriate training whereby Chinese expatriate were regularly sent to LFZDC, which helped the local partner and local employees learn new skills and update existing ones. Specifically, the exchange programme in this case highlighted how effective a tool it was for transferring specific and complex knowledge (Tsang 2001). The training was organised to transfer knowledge, consistent with Nonaka (1994) who stated that training serves as a vehicle for transmitting explicit knowledge and socially embedded information between parent firms and IJV. Atalay and Sarvan's (2014) study also support the findings here, by stating that the training program is another key method that foreign partners use in IJV to transfer knowledge to the IJV employees.

Additionally, the use of a specific form of training in EM IJV is influenced by the national culture of the parent firms and leadership of the IJV. The finding reveals that language training was introduced in LFZDC, because the parent firms in the IJV are from the different cultural background and speak different languages. Based on these differences, the managing director wanted to bridge the cultural gap that exists between the employees in the venture and also aid the employees in the IJV to communicate more effectively (Lyles and Salk 1996).

Finally, in this particular IJV, the use of training is influenced by a combination of organisational (resources contributed by the foreign parent firm, leadership in the IJV, task complexity), relational (knowledge transfer from the foreign to the local parent firm) and external factors (national culture of the parent firms).

### **6.2.2 Socialisation- Organisational, Relational and External Factors**

The parent firms and the IJV use various forms of socialisation activities, including retreats, sporting activities, social events, living and eating arrangement, Christmas and New Year party, Independence Day celebration and festivals. These activities created a forum for the partners and the IJV to interact, which is very important in the IJV. The findings of the study show that at the formation stage, limited socialisation existed between the IJV employees and this was because they were operating from an office and using accommodation space, which was not being shared by both the Nigerian and the Chinese employees. Over time, the arrangement changed, and all employees in the IJV started sharing the same office space and accommodation.

Over the lifecycle of the IJV, the managing director changed twice, the first MD was focused on attracting investors to the Zone, and as such, did not encourage socialisation. Conversely, the second MD has a different management style, as he was interested in attracting investors and also creating a conducive work environment, an excellent working relationship and building trust between the employees in LFZDC and the parent firms. As a result the new MD introduced social activities, most of which aimed to encourage interaction between the parties involved and develop an in-depth understanding of each other. This kind of understanding is a primary basis for developing trust, because it provides insights into the moral character of the partners and the employees (Uzzi 1997; Dyer and Chu 2000). For example, the new MD introduced sporting activities, Christmas and New Year party, Independence Day celebration and festivals. These activities are done regularly, in order to encourage interaction between the parent firms, who also participated in the activities any time they visited the site. Therefore, regular interaction between the partners over time, creates opportunities for them to learn about each other and thereby develop inter-partner trust and strengthen their network (Gupta and Govindarajan 2000; Inkpen and Cullen 2004; Huang et al. 2014).

Furthermore, the national culture of the parent firms motivated the use of socialisation in LFZDC. The IJV wanted the employees to understand each partner's culture, as some of the Nigerian employees were working with the Chinese for the first time. For example, each parent firm's festivals are celebrated, as the IJV management wants the employees to use the forum to learn and understand each partner's culture. Also, new eating arrangements were introduced for LFZDC staff and the parent firms when they visit. This involved everybody eating together, which is more typical of the Chinese culture than the Nigerian culture. In the canteen, both Nigerian and Chinese food is served, so this creates a forum for them to discuss their different food and how they live in their respective countries. The finding revealed that this activity facilitates the transmission of culture (Firth 1996).

The findings indicate that the use of socialisation in LFZDC, was motivated by the need for the local partner to acquire knowledge from the foreign partner. As explained in the findings chapter, knowledge acquisition is one of the motives for the formation of LFZDC. To achieve this goal, the IJV employees used socialisation because, through personal interaction and social events, the IJV employees, managers and parent firms were able to exchange information and ideas and also get feedback without delays. This finding reveals that the employees and the parent firms were able to learn more from each other through socialisation and experience a stronger incentive to share knowledge with each other. Many studies (Tsai 2002; Zander and Zander 2010; Lee et al. 2011; Palmie et al. 2016) are generally in support of these findings, as they maintain that socialisation generates new knowledge and increases access to different knowledge.

Overall, this finding adds to the body of IJV control literature in the following way: in an EM IJV a combination of organisational (leadership in the IJV), relational (trust building between the parent firms and IJV, Knowledge transfer from the foreign parent firm to the local parent firm and the IJV) and external factors (National culture of both parent firms) influences the use of socialisation.



### **6.2.3 Communication – Organisational and Relational Factors**

The analysis reveals that frequent and effective communication is used between the venture, the local partner and the foreign partner in the case. The findings show the various means of communication used in the IJVs, and it includes the use of phone calls, emails, letters, face-to-face or virtual discussion to strengthen the communications and understanding between the parties involved. This means that communication in these IJVs is not limited, and is conducted through formal and informal channels. The informal channel of communication created some level of comfort between the parties involved. In line with earlier studies (Gulati 1998; Chalos and O'Connor 2000; Dhanaraj et al. 2004; Geng 2004; Minbaeva et al. 2018), the result indicates that open communication between the partners and the IJVs is important for effective collaboration. This helps reduce the delay in the decision-making process, thereby slowing down IJV operations due to the need to wait for approval (Blodgett 1992). Therefore, the parties involved use these communication tools to bridge the communications gaps that may exist and allow for a smooth flow of ideas. Thus, the findings agree with previous research (Lane and Lunatkin 1998) by asserting that frequent communication is important in a fast-changing environment related to the decision-making process. This finding is also in line with SET that in order to instil organisational culture in a firm, the managers have to use informal communication (Kwoon 2008).

Regarding the use of communication in this case, the findings show that this form of social control is used because of the need for the foreign and local parent firms and the IJV to transfer knowledge between each other. For instance, in the case of LFZDC, knowledge was transferred from the Chinese partner to the Nigerian partner and the local employees in the IJV. The Chinese partner contributes more knowledge of management and operations, providing a greater opportunity for the Nigerian partner and local employees to acquire the knowledge. To achieve the goal of knowledge transfer in the case of LFZDC, the partners and the IJV use communications to aid the transfer of knowledge. Therefore, the success of knowledge

transfer/exchange in the case of LFZDC, depends on the communications ability of the partners as well as the receptivity of the less experienced local partner (Chalos and O'Connor 2000; Park 2007). This means that there is a relationship between the use of communication and knowledge transfer in IJVs. This confirms the finding of Hauke (2006) that the knowledge transfer motives of parent firms stimulate communication and cooperation between the employees and the partners. Bresman et al. (1999), Argote (1999) and Minbaeva et al. (2018) further confirmed that face-to-face communication is important and well suited to identifying and understanding the knowledge to be transferred. The finding has implications for organisational learning theory, as the use of communication has a significant advantage in promoting effective organisational learning (Berrell et al. 2002).

Furthermore, the finding of this study showed that in this case, the use of communication was influenced by the need for the parent firms and the IJV to build trust. According to SET, two-way communication enables the social conditions that promote trust-building in IJVs. Effective communication is crucial for trust-building as it involves sharing important information between partners, and in the case of two-way communication, both parties exchange information in order for them to have a better understanding (Cropanzano and Mitchell 2005; Kwon 2008). In the context of this study, the finding indicated that when the EM IJV started, there was some level of trust between the partners, but they wanted to build on the existing trust they had for each other; this influenced the use of effective communication between the parties involved. The partners ensured that they communicated regularly in order to enhance transparency and also reduce suspicion as this is necessary for trust-building (Lane and Lubatkin 1998; Van der Meer-Kooistra and Kamminga 2015).

This finding is in contrast to previous studies (Lane and Lubatkin 1998; Argote 1999; Chalos and O'Connor 2000; Dhanaraj et al. 2004; Van der Meer-Kooistra and Kamminga 2015; Minbaeva et al. 2018) that did not discuss or highlight the role the combination of various relational factors plays in the use of communication in IJVs. Therefore, these findings add to

the current understanding of the use of communication in the IJV control literature, EM IJV literature as well.

#### **6.2.4 Site Visit - Organisational and Relational Factors**

Site visit is represented by the foreign and the local partners, and also the Chinese and Nigerian government officials visiting the IJV sites on a regular basis. The visits are not restricted to the IJV site; however, the foreign and the local partners visit each other, and the IJV also visits the parent firms as well. As demonstrated in the case, during site visits, the parent firms usually stay on site for a few days because they have accommodation provided for them. Also, during these visits by the local parent employees, they have the opportunity of shadowing/observing the foreign employees or expatriates that are executing the complex task and in turn, they learn in the process. Based on this insight, it can, therefore, be suggested that the use of site visits by the local partner, especially in this case, is connected to the need for the local partner to acquire knowledge. Although limited, the site visits encourage the mutual transfer of tacit knowledge to the local partner (Minbaeva and Michailova 2004; Atalay and Sarvan 2014). Thus, the finding agrees with previous research (Nonaka and Takeuchi 1995; Duguid 2005) by asserting that tacit knowledge is revealed through observations by the learner, and interaction with the teacher and the learner. Furthermore, the findings support organisational learning theory that argues that parent firms can acquire knowledge by observing and copying successful practices by other firms (Yan and Child 2003).

The findings also revealed that the site visits were facilitated by the need for the parent firms to supervise and monitor the progress of the IJV development. The parent firms' personnel, and both the foreign and local government officials, visit the IJV site in order to assess and monitor the ongoing activities. This not only ensures the quality of the work is up to standard and is progressing towards the well-defined objectives of the venture (Hung et al. 2002; Liu and Fellow 2008), but they also protect the parent firms' investment. Since the visits are frequent, this enables constant

supervision of the IJV by the parent firms (Daniel and Magill 1991; Wang et al. 1998), and allows the IJV employees to have personal contact and regular interactions with the parent firms. These visits also show the support and commitment of the parent firms and both the foreign and local government towards the IJV.

In summary, the research uncovered that in this particular IJV, the use of regular site visits by the parent firms and the Nigerian and Chinese government officials, is influenced by a combination of organisational factors (task complexity) and relational factors (the need to monitor the progress in the IJV and protect the parent firms' investment, knowledge transfer from the foreign parent firm to the local parent firm and the IJV).

### **6.3 Conclusion**

Overall, the findings of this study show that the social control design in EM IJVs is a complex task, influenced by multiple forces. More specifically it reveals that the introduction or the use of an individual control mechanisms can be influenced by a combination of factors within the organisation (IJV), parent firms, and host country; a single factor can also work as a stimulus for the use (introduction) of several control mechanisms. Specific to IJV formed between two firms from emerging economies, this study adds evidence that the control mechanisms used are heavily influenced by government involvement in the IJV and the characteristics of the parent firms. The balance between the use of formal controls and social controls is influenced by parent firm experience, the lifecycle of the IJV and in the case of social controls their use is highly contingent on the experience and leadership of IJV managers.

## CHAPTER 7

### CONTRIBUTION AND CONCLUSION OF THE STUDY

#### 7.0 Introduction

The aim of this study is to increase the understanding of EM IJV control. The findings were discussed in the context of previous studies on IJV control design in chapter 6 and the goal of this chapter is to conclude the study by summarising its empirical, theoretical and methodological contributions and any managerial implications. Finally, the limitations and directions for future research will be discussed.

#### 7.1 Theoretical and Empirical Contribution

The findings from this study have five contributions to theory and existing knowledge. First, the study answers the call for integrating theoretical perspectives to examine IJV (Hillman et al. 2009), particularly IJV control (Mjoen and Tallman 1997). Drawing on the insights from TCT, SET, RDT, institutional theory, contingency theory and organisational learning theory, here a case study approach is taken to identify factors within the IJV, within the IJV relationship and factors within the external environment that influence EM IJV control design. The findings from this study revealed that both organisational, relational and external factors were at play in the control design, and also that the use/introduction of a particular control mechanism was often influenced by a combination of factors rather than a single factor. Such findings are in contrast with those of quantitative studies on IJV control; as they typically report one to one relationship, i.e. one determining factor leads to one particular type of control (Chen et al. 2009; Lee et al. 2011; Liu et al. 2014; Piaskowska et al. 2017). Also, this finding lend further support to the call of applying multiple theoretical lens in examining IJV control (Mjoen and Tallman, 1997; Le 2009), as 'no theory alone is sufficient to encompass the complexity of JVs' (Parkhe, 1996: 451), including their control design and changes.

Second, few studies have attempted to examine IJV control design (Yan and Gray 1994; Le 2009; Chen et al. 2009; Li et al. 2013), however, there have been recommendations to investigate the various factors that influence IJV control design (Dekker 2004; van der Meer-Kooistra and Kamminga 2015). This study provides rich insights into the determinants of EM IJV control design. The analysis captures the strong influence of a range of organisational, relational and external factors that influence the IJV and the parent firms use of a diverse array of controls in the context of control mechanism. This study adds to the IJV control literature by showing that an IJV control mechanism is simultaneously influenced by multiple factors within the IJV (organisational factor), factors within the IJV relationship (relational factor) and factors with the external environment. Specifically, the adoption of formal control (ownership, contract, meetings, and appointment of board of directors) and social control (training, socialisation, communication, site visits and staffing). Here, the findings provide confirmatory evidence that the use of a particular control mechanism can be influenced by a combination of factors. An important implication of the study is that exercising control over IJV by the parent firms, requires the consideration of organisational, relational and external factors holistically.

Third, research on IJV control is dominated by IJV between emerging and developed country partners and also IJV between developed and developed country partners. Hence, as a contribution to the literature, this research examined IJV control design from two EM partner perspectives. The findings showed that not only do institutional forces in the host country influence the use of control mechanisms in the focal IJV, but their use is also influenced by government involvement. This finding extends the previous research of Das and Katayam (2003) and Kamminga and Van der Meer-Kooistra (2007) by adding that resources provided by government enables them to assume control over IJVs for pursuing their policy objectives. Such involvement also has implications on IJV partners' bargaining power, hence the formal control arrangement between local and foreign partners.

Fourth, the use social controls (e.g. training, socialisation) seems to be highly contingent on the change of leadership/ leadership style, and they do not seem to be planned in advance though the needs and conditions for introduction of such social controls are already present in the IJV. Also, both parent firms rely heavily on formal controls, which arguably can be rooted in their institutional environment and their inexperience in managing IJV. The government support/intervention does not only affect formal controls but social controls as well.

Fifth, the use of formal and social controls serves a complementary purpose in the IJV, as the findings from the study showed that some of the social controls are affected by formal controls and vice versa. This finding extends the previous research of Poppo and Zenger (2002) by adding that formal control and social control complement each other. However, not all specific formal controls complement specific social controls.

Finally, previous studies examined control of IJV from only one partner's perspective or the IJV's perspective (Yan and Gray 1995; Le 2009; Owens 2010). In this study, data were collected from the foreign partner, local partner and the IJV management, thereby exploring the complex phenomenon from the perspective of all the parties involved. Through the application of this approach in this research, the researcher was able to triangulate the data collected from all the parties involved in order to have a holistic picture of IJV control design.

## **7.2 Contribution to Policy**

From the policy implications perspective, this study can be useful for the design or review of regulatory policies related to partnerships and IJVs in Nigeria. Given that the study examined the Nigerian institutional framework as it affects international business, there is scope to unpick deficient intuitional arrangements for possible review or redesign to make them function better. For example, in the study, the Nigerian local content law was not clear to the Chinese partner as a result this caused some

misunderstanding between the employees in the IJV. In addressing this problem, it should be understood that the foreign parent firm probably have no clear knowledge and understanding of the Nigerian local content regulation. Accordingly, this study recommends that policy makers should review the local content law and make it clear for foreign businesses that operate in Nigeria, thereby providing a clear statement on how many foreign employees can work in a company. Furthermore, the policymakers should consider monitoring the number of Nigerian employees in foreign companies that operate in Nigeria as this will enable the foreign firms to adhere to the local content law and penalties should be levied on those that break the law.

### **7.3 Managerial Implications**

With an increasingly significant role in the global economy, IJVs serve as an important mode of market entry for foreign firms and provide a point of access for local firms to expand abroad. This study offers valuable insights into the challenges and successes of managing EM IJVs. It suggests a relevant control structure for the foreign and local partner and the IJV, having revealed how the various factors in the IJV, factors in the parent firm's relationship and the external environment will have an impact on the control structure.

This study helps EM IJV parent firms to understand what controls to deploy in the IJV at different times. The findings showed that while both parent firms and the IJV considered various challenges (e.g. lack of trust, cultural differences) arise within the IJV, they do not seek for the active use of social controls initially. This, however, was changed after the appointment of an experienced IJV manager, which was important for both parent firms, since the operating environment of the IJV in the foreign and local markets are quite different.

In addition, the present study highlights the importance of having both local and foreign parent firms on the IJV board, as this will help both parent firms



to protect their respective interests and achieve their respective objectives in forming the IJV. Also, since the local partner managers are highly knowledgeable about the local environment, they will be fully aware and understand the complexity of the external environment in which the IJV operates, and how to handle such complexities.

Furthermore, the findings offer both the foreign and local parent firms and the IJV suggestions on how to successfully design and implement controls in EM IJVs. For local parent firms that aim to acquire knowledge, the study suggests that the local parent firm should focus their control on some areas and allow the foreign partner to take charge of the areas that will enable knowledge transfer.

Another important implication for practitioners is that the control structure over EM IJVs should not be rigid during the lifecycle, as they may need to adapt to changing external environment. Both the foreign and local parent firms should be more willing to redesign their control structure to fit the changing operating environment. This is important since the operating environment of the IJV, which is characterised by its frequent changes in legislation and policies and economic uncertainty. Hence the parent firms and the IJV managers should be flexible in order to enable them to redesign and adjust the control structure for it to fit the changing environment. Also, the changes are needed to promote trust between the local and foreign parent firms.

Finally, the study points out that in an EM IJV, where the government of the foreign and local parent firms contributes resources, there will be full government involvement in the running of the IJV activities. The respective governments were involved in order to monitor and protect their interests, a process which was carried out through frequent site visits. For parent firms considering the IJV route in EM, it is important to understand the market that they are entering because different EMs have different characteristics.

#### **7.4 Limitations of the Study**

This research study is not without its limitations. Firstly, owing to the difficulty of securing access, the research was carried out using a single case study. Guidice (2001) stated that identifying IJVs is one of the most significant issues in a study of this nature. However, given that the study is not intended to achieve a statistical generalisation, but rather, an analytical generalisation, as such a limited sample size is acceptable since theoretical saturation is attained (Creswell 2013). As this study is focused on EM IJV control design, a considerable amount of data that is relevant to the understanding of the various organisational, relational and external factors in the case were gathered and analysed from interviews, observation and published documents. The level of depth of analysis carried out in each element of IJV control design in this case compensates for the limited size of the sample.

Although the case was selected through a process of purposive sampling and despite the researcher's best efforts, there can be potential for some bias. The respondents could harbour some bias as they may rationalise a specific event that had affected them favourably or unfavourably. To limit bias, the researcher undertook several measures including, to (i) sample only the IJV with both partners from the EM, (ii) sample the IJV that has been in operation for at least four years, (iii) use triangulation of data sources through supplementary interviews with the local and foreign parent firms and the IJV as well as observations and documents. These measures will, to a great extent, control for potential bias in the case.

Furthermore, the data was collected from the local parent firm (Nigerian), foreign parent firm (Chinese) and the IJV (located in Nigeria), therefore the findings may not be applicable to other IJVs between two EM parent firms, which have different cultural, legal and institutional backgrounds such as Ghana or India or Brazil or South Africa.

The data collected through observation was limited due to the amount of time spent in the field by the researcher. This is not expected to affect the findings

of the study as observation was used as a means of complementing the other sources of data (interviews and secondary data) used in the study. Furthermore, there was a limitation in terms of the numbers of interview participants, but this issue was resolved with the use of other forms of data sources.

Also, the researcher's bias may influence the interpretation of the findings. This was, however, controlled by devising a coding framework, which emanated from the interview, observational and secondary data and was then strictly applied. Since it was the codes that yielded the themes used in arriving at findings, efforts were made to ensure that the researcher did not attempt to understand and interpret what the respondents mean at the level of coding.

Although, the study also shows government involvement in the design of EM IJV control, primary data were not collected from government officials but secondary data were used in this study. Due to this limitation the study did not provide different levels of data analysis with respect to government, parent firms and IJV perspectives.

### **7.5 Direction for Future Research**

This study opens up some avenue and directions for future research. First, the discussion of IJV control design that was presented can be subjected to further test. Other factors could have been added to this IJV control design process. This study mainly took into account a range of factors that influence EM IJV control design, which includes organisational, relational as well as external factors, but these factors are by no means exhaustive. The study examined EM IJV control design using the context of a Chinese firm as the foreign partner and the Nigerian firm as the local partner who are the two EM parent firms. It is unclear whether the same pattern would occur in IJVs in other emerging countries, or whether the results may change in studies involving other EM parent firms because of the differences in heterogeneity and country-specific factors, such as the institutional, national, organisational

and cultural. Therefore, there is an opportunity for future studies to explore other IJVs between other two EM partners or IJVs between two African country parent firms. This will no doubt benefit the field of EM, African countries and IJV.

Second, this study examined IJV control design from two IJV parent firm perspectives; however, there are IJVs with more than two partners and it is unclear whether the same pattern would occur in multi-party IJVs. Therefore, future studies are required to deepen the understanding of IJV control design from more than two parent firm's perspectives.

Third, with regards to the units of analysis, it should be noted that data was collected from the foreign and local parent firms and the IJV. Future research is urged to build on this study by providing different levels of analysis, which include the partners, IJV and the government perspectives.

Fourth, the present study examined IJV control design at the post-formation stage and in the process explored the design for the formation stage of the IJV lifecycle. Therefore, future research would benefit from longitudinal data obtained through a qualitative method with a case study approach, so as to capture the dynamic nature of IJV control design.

Finally, this study yielded some interesting findings on the various factors that influence EM IJV control design. As the study analysed organisational, relational and external factors influencing control mechanism design, further research is warranted to explore the impact of the various factors on the performance of the IJV.

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## Appendix 1: Access Letter



17<sup>th</sup> March 2017

The Managing Director,  
Lekki Worldwide Investments Limited,  
47/49, Sinari Daranijo Street  
Victoria Island,  
Lagos.

Dear Sir/Ma,

### **RE: PhD RESEARCH IN INTERNATIONAL JOINT VENTURE**

I am a Doctoral researcher from the Faculty of Management and Law, University of Bradford, United Kingdom and I am currently undertaking a research on the management and control of International Joint Venture in Emerging Market. The purpose of this research, which is part of my doctoral thesis, is to examine the dynamics of social/informal control in international joint venture (IJV) in Nigeria. Therefore, I am interested in examining the organisational and external factors that influence IJV control design.

In order to achieve this objective of my research, it is imperative that I interview and talk directly to people who are the key actors in the venture (China-Africa Lekki Investment Ltd and Lekki Worldwide Investment Limited) and also the management of the venture as your insights will contribute immensely in gaining an understanding of the various factors that influence the use of controls in IJVs in Nigeria. With your kind permission, I am requesting to have an interview with the management team who are concerned with the subject matter in your office. The interview should last between 60-90 minutes and the research will commence between April and July 2017.

I would like to stress that this is a purely academic exercise and your responses will be handled with utmost confidentiality. Your identity or that of your company will not be revealed except with your permission. Furthermore, findings will not be used for commercial purposes or financial gains. Your participation in this study would be greatly appreciated and as a token for your kind gesture you will receive a free copy of the findings generated from

this exercise, which I believe, should be of benefit to your company and also your input and expertise will be appreciated.

Thank you very much and I look forward to having a fruitful discussion with you.

Yours sincerely

**Ito Ekpo (UB- 12022804)**

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## Appendix 2: Information Sheet



Researcher Name: **ITORO UDO EKPO**

Contact Details: [iuekpo@bradford.ac.uk](mailto:iuekpo@bradford.ac.uk), +2348065423816 or +44(0)7849534327.

Title of Project: **International Joint Venture (IJV) Control Design: A Case Study of IJV in an Emerging Market**

Thank you for considering to participate in my Doctoral research. Before you decide whether or not to participate, it is important for you to understand why the research is being done and what it will involve. Please take your time to read the following information carefully. You are free to ask me anything that is not clear or if you will like more information about the research.

This research is part of my doctoral thesis and the purpose of this research is to examine and gain an understanding on the organizational and external factors that influence IJV control design in Nigeria. In order to achieve this it is important that I talk to people who are directly involved and have an extensive knowledge and experience of the research area. You have been invited to participate in this study due to the role that you play in the firm as a member of the management team of the foreign parent firm, local parent firm and the IJV. Your input would be valuable to this study.

If you decide to participate, the research is due to commence between April 2017 and July 2017. I will contact you to set up a time that is convenient for you to participate in a semi-structured face-to-face interview (60-90minutes). If you do participate, and you want to stop the interview or take a short break during the interview, you only have to ask. The interview will be audio-recorded because I don't want to miss any of your comments and also I will be taking notes during the session in case there are technical difficulties. You have the right not to talk about anything you don't want to, and you may end the interview at any time. I will send a copy of the interview transcript for you to check and verify before further analysis.

Participation is entirely voluntary. All information that will be collected will be kept securely in accordance with the University's policy of Academic Integrity and any material, such as the name of the firm, managers and addresses will not be published in order to ensure your anonymity. It is anticipated that the research will be written up into a report, which may be published at a later



date. However, your anonymity will be ensured, including the anonymity of your quotes, and all the information I have collected from you will continue to be kept secure and confidential.

If you decide to take part you will be given this information sheet to keep and also a formal consent form will be sent to you to sign. If you decide to take part, you are still free to withdraw at any time and without giving a reason even after the interview. Please note that if you decide to withdraw your data from the study after participation you can do this within four weeks as later than this, the researcher would have already written up the report.

Thank you for taking the time to read this information sheet. If you have any question or concerns about taking part. Please don't hesitate to contact me.

**Appendix 3: Consent Form**

**STUDY TITLE: International Joint Venture Control Design: A Case Study of IJV in Nigeria.**

Thank you so much for considering to participate in my doctoral research. The purpose of this form is to make sure that you are happy to take part in the research and that you know what is involved.

Have you had the opportunity to ask questions and discuss the study?	YES /NO
If you have asked questions have you received satisfactory answers to your questions?	YES/NO/N A
Do you understand that you are free to choose not to answer a question without having to give a reason why?	YES/NO
Do you understand that you are free to end the interview at any time?	YES/NO
Do you agree to take part in this study?	YES/NO
Do you agree for the interview to be audio-recorded?	YES/NO
Do you grant permission for your anonymity to be maintained in the research?	YES/NO
Do you grant permission for anonymous extracts from the interview to be used in the research and also included as an appendix in the final report?	YES/NO

Participant's  
Name.....

Signature.....

Date.....

Researcher's Name .....

Signature.....

Date.....

## **Appendix 4: Interview Guide**

### **International Joint Venture Control (IJV) Design: A Case Study of IJV in an Emerging Market**

**Date:**

**Company:**

#### **Introduction**

Thank you for considering to participate in my Doctoral research. My name is Itoro Ekpo, a doctoral researcher at the University of Bradford, UK. The research investigates the dynamics of informal means of managing/controlling Emerging Market International Joint Venture. Specifically, I would like to know how various factors influence IJV control design.

The interview should take between 60 and 90 minutes, and I will be audio-recording the session, with your permission, because I don't want to miss any of your comments. Also, I will be taking notes during the session, in case there are any technical difficulties.

#### **Ethical Concerns**

Participation is entirely voluntary. All information that will be collected will be kept securely in accordance with the University's policy of Academic Integrity and any material, such as the name of the firm, managers and addresses will not be published in order to ensure your anonymity. The information will be kept between my supervisors and myself. It is anticipated that the research will be written up for my doctoral thesis and into a report, which may be published at a later date. However, your anonymity will be ensured, including the anonymity of your quotes.

You have the right not to talk about anything you don't want to. You may end the interview at any time and withdraw your consent to participate, even after the interview, without giving a reason. I will send a copy of the interview transcript for you to check and verify before further analysis.

Before I start the interview, I will like to know if you have any question about what I have just explained.

Are you willing to go ahead and participate in this interview? If so, please complete and sign the consent form now.

**A. Participant Background**

- a. Your job title in the IJV
- b. Your length of service in the IJV
- c. Your nationality
- d. Which parent firm of LFZDC you had worked for previously?
- e. Your job title in the parent firm prior to joining the IJV
- f. Your length of service in the parent firm

**B. Formal Control System**

1. Tell me about the specific formal control controls that are used in the IJV.

Probing: What was the function of this control system in the IJV?

Probing (if required): How formalised was this control?

Probing: can you give examples of scenarios that formal controls have been used in the IJV?

Probing: how are they used?

Probing: Why are they used?

**C. Social Control System**

1. Tell me about the social control mechanism that is used in the IJV?

Probing: Interesting, can you tell me more about the specific social controls that have been adopted? Explain further.

Probing: Can you give examples of scenarios that social controls have been used in the IJV?

Probing: How are they used?

Probing: Why are they used?

- D.** Did the Nigerian parent firm receive institutional support from the Nigerian government at the formation stage? YES/NO. Please explain what specific support was provided

- E.** Did the Chinese parent firm receive institutional support from the Chinese government at the formation stage? YES/NO. Please explain what specific support was provided

Is there anything else you would like to add?

Thank you very much for your time and also for participating in this research!!  
If you have any further thoughts or questions about the research, please feel free to contact me.

## **Appendix 5: Observation Notes**

### **17<sup>th</sup> April 2017**

Before I started the interviews for the day, I had a tour round the office building. During the tour, I observed that there are both Chinese and Nigerian employees in LFZDC and the employees share office space. Each department has an open plan office with both Nigerian and Chinese employees sharing the space. For example, when I visited the engineering department there were two Chinese and four Nigerian employees in the office and they sit opposite each other. I noticed that they were having a discussion and this office and sitting arrangement provides an opportunity for information/knowledge sharing.

During the lunch break which is between 12 noon and 1:30 pm, I noticed that most of the employees were out of office as they all went to the canteen for lunch. I observed that they had Chinese and Nigerian meals prepared at the canteen and they had round tables in the canteen. Each table had both Nigerian and Chinese employees and they also had personal and professional discussions.

After the lunch break, I visited the staff accommodation where both the Nigerian and the Chinese employees from the senior to the lower level employees live and I observed that the living arrangement provided opportunity for interaction between the employees based on the close housing arrangement. The living arrangement provides opportunity for socialisation and opportunity for the employees to have both personal and professional conversation. For example, I noticed two employees having a work-related discussion in the corridor and I was told that was frequent thing as you can easily walk up to your colleague's apartment to get clarifications on things.

### **19<sup>th</sup> April 2017**

CALIL representatives visited LFZDC to monitor the progress of the activities on the project. The team was made up of eight people ranging from the high

to the middle level management employees. They had series of meetings throughout the day but the first thing I observed that they did was to have a tour round the zone to actually see what is happening and to also get clarifications on certain projects on the site. I also observed that at the end of their day's activity, they moved to the guest house located on the site as they were going to be staying there throughout their visit. Therefore, this creates more opportunity for the LFZDC employees to interact more with the foreign parent firm representatives.

I had the opportunity of spending the night in the guest house and I observed that the first evening that CALIL representatives spent in the guest house that there was a welcome party organised for the team. This was to provide an informal forum for LFZDC and CALIL employees to social and this removed barriers which involves the middle or lower level employees having an informal discussion with the foreign parent firm and the senior level management team in LFZDC.

### **20<sup>th</sup> April 2017**

The CALIL representatives that visited LFZDC organised training for the employees in the zone, but it was department specific. The training was specifically for members of the engineering department to show them how specific things work and how to execute certain engineering task on the project site. I noticed that two engineers from LWIL also attended the training thereby showing that the local parent firm has the opportunity of attending trainings organised in LFZDC which they in turn acquire knowledge from the foreign partner. From observing the training, I realised that the local parent firm employees attending training in LFZDC was something that was done on a regular basis. That is whenever a training is organised in LFZDC and it is of importance to the local partner, then certain employees that will benefit from the training will be sent to attend such trainings and also train their colleagues in LWIL. Overall, from the observation, it shows that there is knowledge transfer from the foreign partner to the local partner and the IJV itself.

**21<sup>st</sup> April 2017**

On the morning of Friday the 21<sup>st</sup> of April, I observed that two LWIL employees spent the night in the staff quarters. This indicates that the living arrangement is not for only the foreign partner employees that visit the site, but the local partner employees also benefit from the use of the staff quarters. The training for the engineering team continued for the second day and the local partner also attended as the two employees spent the night in the staff quarters.

During the lunch break, I observed that they were planning the Thank God Its Friday party that they usually have once a month. It is a social event organised in LFZDC for all employees and also people visiting the zone. The event is organised to create an informal forum to employees and visitors to socialise and bond amongst themselves.

**14<sup>th</sup> June 2017**

I observed that there was a site visit by the Lagos State Government officials and there was a tour of the site by the team and this was done in order to monitor and check the quality of work done. From the site visit, I noticed that the government officials visited the site on a regular basis.

Before the tour, the government officials had various meetings with the LFZDC management team. They discussed on ways to attract investors and progress of the development of the Free Zone. The day ended with a group photo of the visiting government officials and LFZDC management team.