

CHAPTER 8

International Joint Venture Control: An Integrated Framework

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INTRODUCTION

Recent studies have paid increasing attention to international joint ventures (IJVs) in emerging economies, such as China, Russia, and Eastern European countries (e.g., Hitt et al. 2000; Steensma and Lyles 2000; Zhang and Li 2001). IJVs in emerging economies differ significantly from their counterparts in market economies. Relative to those in market economies, IJVs in emerging economies tend to have parent firms (foreign parents versus local parents), who have different resource endowments and different objectives for the joint venturing. As Child and Faulkner (1998, 297) stated, "when one of the partners . . . come from an emerging country and the other from a highly developed economy, their configuration of objectives . . . will almost certainly differ from that in the case of partners from two developed countries." Parent firms' differences in resource endowments and objectives will further increase the possibility that these firms are exposed to the risk of opportunism of their partners in the IJVs (at least in their perceptions). Thus, control becomes a particularly important issue in these IJVs.

Although there have been a large number of studies on IJV control, there are still two important gaps that constrain our understanding of this issue. First, prior literature tends to assume that all parent firms want to control the IJVs to the same extent. However, we raise the possibility that parent firms may vary in their desired level of control, depending upon their task interdependence with the IJVs. Second, prior research has indicated that IJVs are transitional organizations with dynamic natures (Franko 1971; Harrigan 1986). Although several factors that affect IJV reconfiguration have been iden-

tified in previous studies (Gomes-Casseres 1987; Hamel, Doz, and Prahalad 1989; Inkpen and Beamish 1997), how the control structure of JIVs evolves over time remains unclear (c.f., Zhang and Li 2001). In this chapter our goal was to develop an integrated framework of JIV control, which would include its antecedents, consequences, and evolution. The framework was developed based upon the organization economics theory and our comprehensive interview data of eight China-Japan JIVs operating in China. The framework addresses two important control issues: (1) from the organization economics perspective, what is the relationship between parent firms' task interdependence with an JIV and their levels of control over the JIV? and (2) from an evolution perspective, how does the relationship between JIV control and performance evolve over time?

The remainder of this chapter is organized as follows. First, we briefly describe our framework. Then we discuss the research methodology, including sampling, codification of key constructs, approach of data analysis, and the description of the eight cases. We then present the findings of our comparative case studies. Specific hypotheses are also developed in this section. The chapter concludes with a discussion of the implications of the whole framework and our findings.

AN INTEGRATED FRAMEWORK OF JIV CONTROL

JIV control can be generally conceptualized into various types: *ownership control*, which is determined by parent firms' equity shares in the JIV (Bloodett 1991; Buckley and Casson 1988; Hennart 1988), *specific control*, which refers to parent firms' control over specific operational activities of the JIV (Geringer and Hebert 1989; Mjofen and Tallman 1997; Schaan 1983), and *strategic control* (or overall control and management control), which refers to parent firms' control of JIVs' key strategic decision making (Killing 1983; Mjofen and Tallman 1997; Yan and Gray 1994). In this chapter, we focus on parent firms' strategic control of JIVs. As Mjofen and Tallman (1997) argued, control seems to be a direct managerial function closely related to strategic direction rather than ownership. Strategic control over an JIV may ensure the most effective use of strategic resources shared by parent firms and the JIV, and it may prevent leakage of proprietary knowledge. Specifically, Demirbag and Mirza (1996) suggested that in developing countries (e.g., China, the current research context) where local parents depend heavily on foreign parents' expertise and knowledge, the parents' influence on the JIVs' strategy formulation and implementation is a better measure of control than the parents' equity share in a joint venture.

Killing (1983) has formally classified JIV control structure into three categories according to which parent is the main decision maker: dominant parent JIVs (where only one parent firm is heavily involved in decision making while the others are silent), shared management JIVs (where both parent firms ac-

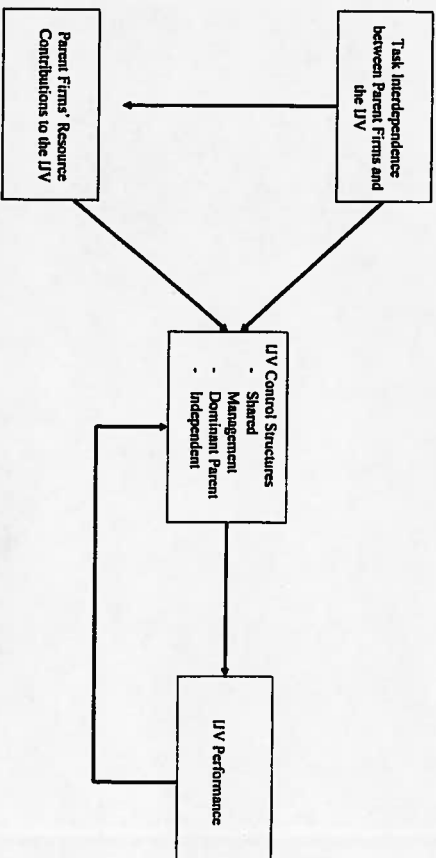
tively make strategic decisions), and independent JIVs (where the JIVs' management has substantial decision power while none of the parent firms are actively involved in decision making). Killing's classification has been adopted and validated by several studies (e.g., Beamish 1984; Lecraw 1984; Yan and Gray 1994). In the current study we draw upon this conceptualization of JIV control and examine the antecedents and consequences of different types of controls. Our integrated framework of control in JIVs is depicted in Figure 8.1.

Antecedents of JIV Control

We adopted an organizational economics (OE) perspective to examine the antecedents of JIV control. The OE perspective has been widely used in research on organizations (Barney and Ouchi 1986; Hesterly, Liebeskind, and Zenger 1990). This paradigm aims to address the key determinants of the shape and function of organizations. In the JIV literature, some scholars (e.g., Shenkar and Zeira 1992) have suggested that an JIV is an organizational form that sits just in the middle of the market-hierarchy continuum. We extend this argument and suggest that there exists a set of organizational arrangements available to govern the JIVs and that these arrangements can be represented along a market-hierarchy continuum. Which arrangement is chosen to govern a particular JIV largely depends upon the task interdependence between the JIV and its parent firms.

Thompson (1967) conceptualized task interdependence between subunits of a firm into three forms: pooled, sequential, and reciprocal. *Pooled interdependence* refers to a situation in which each unit renders a discrete contribution to the whole and each is supported by the whole. *Sequential interdependence* is

Figure 8.1
An Integrated Framework of JIV Control



a serial form of interdependence, with one unit producing parts that become inputs for another unit's operation. *Reciprocal interdependence* is a situation in which the outputs of each unit become the inputs for the others, so that each unit is penetrated by the other. According to Thompson (1967), the sequence from pooled, through sequential, to reciprocal interdependence represents an increasing level of task interdependence.

We used Thompson's (1967) conceptualization to analyze the relationships between the parent firms and the JTVs. We argue that there exist three types of task interdependence between an JTV and its parent firms. First, an JTV that is an unrelated diversification of one parent firm has pooled interdependence with this parent firm. In this situation, the JTV and the parent firm have few business linkages and task coordination activities. Second, when an JTV's operations are upwardly or downwardly integrated into one parent firm's value adding chain, the two firms have sequential interdependence. In this situation, the JTV represents an extension of the parent firm's value adding chain. Finally, when an JTV is horizontally related to one parent firm, the two have reciprocal interdependence. In this situation, the JTV is formed to widen one or several parts of the parent's value chain.

From the OE perspective, different levels of task interdependence between an JTV and a parent firm require the parent firm to control the JTV differently, along the market-hierarchy continuum. As the level of task interdependence increases, the parent needs to position the JTV closer to the hierarchy pole rather than the market pole of the continuum. Specifically, in pooled interdependence, actions in the JTV can proceed without regard to actions in the parent's operations as long as the JTV remains viable, so that the parent can position the JTV at the market pole of the continuum. In reciprocal interdependence, the actions of each player, including the JTV's actions, must be adjusted to the actions of one or more others in the whole parent-JTV relationship. High task interdependence causes the exchanges between the JTV and the parent to be more frequent, to last for a longer time, to be associated with higher specific asset investment, and to involve greater uncertainty. Therefore, the parent will have to position the JTV in its hierarchy rather than in the market, in order to reduce the risk and uncertainty (Barney and Ouchi 1986). Sequential interdependence is somewhere between pooled interdependence and reciprocal interdependence. It represents a situation in which the parent's operations must be adjusted if the JTV acts improperly or fails to meet the parent's expectations. Because of this, the parent tends to position the JTV in the middle between market and hierarchy.

In summary, we propose that a parent firm will choose the level of control over an JTV along the market-hierarchy continuum in accordance with its task interdependence with the JTV. The higher the task interdependence, the higher level of control the parent firm will choose, by the positioning of the JTV within the parent's hierarchy, rather than in the market. Further, the combinations of the (two or multiple) parent firms' task interdependences with

the JTV will determine the JTV's control structure. For example, if both parents (we only use the example of an JTV with two parents for simplicity) position the JTV in their hierarchies, the JTV will be a shared-management JTV. If both parents position the JTV in the market, the JTV will be an independent JTV. When one parent positions the JTV in the market while the other positions it in its hierarchy, the JTV will be a parent-dominant JTV.

Previous studies (Blodgett 1991; Yan and Gray 1994) have suggested that parent firms' resource contributions determine their relative control in the joint venture. However, as Inkpen and Beamish (1997) argued, parent firms' resource contributions to the JTV will not happen voluntarily because they have options with regard to what and how much to contribute to the JTV. We argue that while task interdependence determines a parent firm's objective of control over an JTV, its resource contributions to the JTV constitute its power, which helps realize the parent firm's control objective. Thus, we expect a consistent pattern among parent firms' task interdependencies with the JTV, their resource contributions to the JTV, and their relative control over the JTV.

JTV Control and Performance

In the JTV literature, empirical findings on the control-performance relationship are not consistent. For example, in a sample of 37 JTVs from developed countries, Killing found that the 13 dominant-parent JTVs and 4 independent JTVs outperformed the 20 shared-management firms in terms of perceived success by the JTV managers. The underlying argument is that shared-management JTVs involve more management difficulties and bargaining costs, because both parent firms play active roles in the decision making. As Killing (1983, 23) further noted, "the more equally the parents share the management of a venture, the worse it will perform." In a sample of JTVs in five developing Asian countries, Lecraw (1984) investigated the relationship between parent control and performance from the perspective of multinational corporations (MNCs). This study found that the success rate was low when overall control was roughly divided between the MNC and the local parents.

However, other studies have produced contradictory findings. Beamish (1984) utilized Killing's design and performance measures on 12 JTVs in less-developed Caribbean countries. He found that dominant control by foreign firms is negatively related to JTV performance, while dominant control by local firms and shared control are not. Yan and Gray (1994) argued that the interpartner relationship in the JTV is embedded in divergent and competitive self-interests and objectives. They found that partner firms' relative control in the JTV predicts the extent to which they achieve their objectives. In particular, among four JTVs operating in China, they found that shared-management JTVs demonstrated better performance than dominant and independent ones.

We argue that these inconsistent findings may be partially attributed to the

static approach used in the prior research. It is our belief that an evolution perspective should help us understand the complex nature of such relationships because JTVs are always under reconfiguration. Several studies have focused on how JTV performance affects JTV reconfiguration. Killing (1983) observed that the parent firms might loosen or strengthen control over the JTV as a response to the JTV's ongoing performance. When an JTV shows superior performance, the parents tend to loosen control, since the JTV's management team has proven its expertise. Yan (1999) proposed that undesirable performance prompts structural instability because poor performance implies that at least one of the parent firms failed to achieve its objectives, thus creating stimuli for changing the existing structure. In addition, it is argued that JTVs have the potential to develop strategies of their own and to make autonomous decisions (Butler and Sohod 1995). The evolution toward autonomy may lead to improved performance. As Killing (1983) noted, the more the JTV managers are left alone, the better they will perform. So, the relationship between JTV control and performance is not unidirectional but reciprocal.

RESEARCH METHODOLOGY

Sample and Data Collection

The cases analyzed in this study consisted of eight China-Japan joint ventures in manufacturing industries operating in China. We limited the cases to manufacturing industries because JTVs in service industries may significantly differ from those in manufacturing industries in the complexity of technology, structures, and the processes and procedures of management (Chowdhury 1988). Further, the cases were restricted to China-Japan JTVs so that the extraneous variation (Eisenhardt 1989) that might be derived from studying JTVs with different national cultures would be minimized. Because of geographical convenience, Japanese businesses had concentrated their investments along the eastern coast of China. In this sample, four cases were located in Tianjin (a large city in the northeast) and the other four were in Nantong (a medium-sized city in the southeast).

Data were collected mainly through in-depth interviews conducted in mid-1995. The interviews were guided by a semi-structured questionnaire to assure that similar procedures were carried out in each case. Examples of the interview questions are included in the Appendix. In order to address the dynamics in these JTVs, we asked the informants to describe the history of the JTV, with special attention paid to the JTV formation stage, significant reconfigurations, and the current situation. Five of the eight JTVs had been operating for over eight years at the time of interview, so this sample enabled us to examine control evolution in these JTVs. In addition, all informants had worked in these JTVs since their formation, so they were able to provide relevant information.

To make the interviewees feel comfortable, the interviews were not tape recorded, but extensive notes were taken. We used the local general manager of each joint venture as the key informant for data collection. General managers were considered the appropriate informants because they were the most knowledgeable people about their ventures and were involved in strategic decision making (Geringer and Hebert 1991). A practical consideration was that there exist tremendous barriers to collecting data from multiple informants in the JTVs in China. The companies have been disguised to ensure confidentiality. The major characteristics of the eight cases are summarized in Table 8.1.

Key Constructs and Measurements

JTV Control

We used Killing's (1983) categories to identify JTV control. Our sample had demonstrated all three types of JTV control structures in Killing's categorization: shared-management JTVs, dominant-parent JTVs, and independent JTVs. Our data also suggested that management appointment, particularly to the position of general manager of an JTV, was an important mechanism for parent control. In our sample, in a typical shared-management JTV, both parent firms were highly involved in the JTV's operations, and the JTV's general management positions were split between the two parents. In an JTV with a dominant parent, only the dominant parent was highly involved in the JTV's operations, and the JTV's general manager acted as a middle manager in the parent firm's hierarchy. In an independent JTV, neither parent was highly involved in the JTV's operations, and the general manager was the top decision maker in the JTV.

Task Interdependence

Task interdependence between the JTV and its two parent firms was coded according to two criteria: the overlap in the JTV's and parent firms' business domains and the parents' strategic objectives in the JTV. An JTV and a parent firm had pooled interdependence if they had no overlap in their business domains and the parent's main objective was to get profit from the JTV (e.g., in case 1 the JTV had pooled interdependence with its Chinese parent). An JTV and a parent firm had sequential task interdependence if the JTV's business domain was upwardly or downwardly related to the parent's business domain and the parent's strategic objective was to gain access to low-cost raw materials/products or to local market channels (e.g., in case 3 the JTV had sequential interdependence with its Japanese parent). In two cases (cases 2 and 8), the Chinese parent firms were transformed into the JTVs after the Japanese parents pooled part of their resources. In these cases, the JTVs and the Chinese

Table 8.1
A Summary of Major Characteristics of the Cases

| Characteristics | Case 1 | Case 2 | Case 3 | Case 4 | Case 5 | Case 6 | Case 7 | Case 8 |
|-------------------------------|-------------------|------------------------------------|---------------|---------------|------------------------------------|---------------|---|---------------|
| Product | Men's suits | Plastic materials for shoes, belts | Retail shoes | Capacitors | Medicine and intravenous solutions | Party shields | Syringes, infusion sets, hemodialysis equipment | Printing ink |
| Formation | 1993, Nantong | 1986, Nantong | 1982, Nantong | 1994, Nantong | 1981, Tianjin | 1987, Tianjin | 1986, Tianjin | 1993, Tianjin |
| Total Investment ^a | 2.5 | 6.7 | 1.4 | 7.0 | 5.0 | 1.0 | 7.85 | 48.0 |
| Japan-China Equity Shares | 50/50 | 40/60 | 60/40 | 60/40 | 50/50 | 50/50 | 47/53 | 70/30 |
| Product Market | 95% export | 10% export | 100% export | 70% export | 30% export | 100% local | 70% export | 10% export |
| Supply Source | 100% local supply | 100% local supply | 40% import | 60% import | 15% import | 40% import | 60% import | 20% import |

Note: ^aThe unit is in millions of U.S. dollars.

parent firms referred to the same identities, and thus they were codified as having reciprocal interdependence.

Parent Resource Contribution

This referred to the parent firms' contributions of resources and capabilities to the JIV (Yan and Gray 1994). Parent resource contribution was assessed along three dimensions: the parent's equity shares, noncapital contributions, and the overall evaluation of their contributions.

JIV Performance

We got information on JIV performance via three steps. First, the key informant was asked to answer performance questions by referring to the triangular relationship between the JIV, the local parent(s), and the foreign parent(s). Our interviews suggested that such a reference might help the informant incorporate both the parent firms' perspectives and the JIV's perspective in assessing performance. Second, we asked the informants to evaluate their JIVs' performance by using their own criteria. We believed that by using open-ended questions we would allow the respondents to evaluate their JIVs' performance realistically and multidimensionally. Finally, we used a single-item perceptual measure to provide an overall evaluation of JIV performance. Each JIV's overall performance was assessed using a scale ranging from good to satisfactory to poor.

Approach of Data Analysis

We analyzed the data following the procedures of comparative case studies suggested by Ragin (1994) and Eisenhardt (1989). The goal of comparative analysis is to determine the causal conditions or combinations of causal conditions that differentiate sets of cases (Ragin, 1994). Three steps were adopted: First, a within-case analysis was conducted for each case. The purpose of this analysis was to provide an adequate explanation for each case that permitted a comparative analysis. According to the theoretical discussion above, key variables were identified. Second, data were analyzed by comparing the presence or absence of causal conditions with the presence or absence of the outcomes. Third, the results of the examination of similarities and differences between cases were then compared with the theoretical debates. Consistency among cases and between the empirical results and the theoretical debates led to the conclusions.

Case Description

Case 1

This JIV was formed in 1993 between a Chinese textile manufacturer and a Japanese clothing producer. At its founding, the JIV was dominated by the

apanese parent, although it only held 50 percent of the equity share. Ninety-five percent of the JIV's end products—clothes—were exported to Japan, and 35 percent of the raw materials were imported from Japan through the Japanese parent. Thus, the Japanese parent had a stronger influence than the Chinese parent on the JIV's activities. While both parents, especially the Japanese one, were satisfied with the JIV's performance, the JIV's local managers were not satisfied and attempted to seek independence from the Japanese parent's control for two reasons. First, the Japanese parent could not provide enough orders to the JIV, and thus parts of the JIV's production facilities were wasted. Second, the exporting price was very low, and targeting the local market seemed more profitable than exporting. Therefore, the JIV's local managers were attempting to establish the JIV's own brand in the Chinese market and were looking for local suppliers.

Case 2

This JIV was transformed from a Chinese state-owned enterprise in 1986, and the other two parent firms were a Chinese financial company and a Japanese trade company with equity shares of 35 percent, 25 percent, and 40 percent, respectively. The JIV had its own independent businesses, led by the general manager from the Chinese state-owned enterprise. Neither of the parents was involved in its businesses. Despite the difficulties the JIV faced at its founding (e.g., high debt ratio), it had achieved satisfactory performance in past years, paying off debts and building new workshops.

In 1995, the Japanese parent proposed to restructure the JIV by buying 60 percent of the equity shares held by the Chinese parents. The reason for this proposal was to integrate all of the Japanese parent's businesses in China, including this JIV. However, the proposal was strongly opposed by the local JIV general manager. The manager said, "I don't agree with this reconfiguration proposal. It will damage the interests of our company and the employees. Anyway, the proposal cannot be passed without my approval in the board." In fact, the manager had called for all employees not to cooperate with the consultant team sent by the Japanese headquarters for restructuring. The conflict between the local general manager and the Japanese headquarters resulted in losses for the JIV for the first time in the last six years.

Case 3

The JIV, formed in 1982, was jointly owned by a Japanese shoe company, a Chinese local government, and a Chinese financial institute with 60 percent, 30 percent, and 10 percent of the equity shares, respectively. This JIV represented a dominant-parent JIV because only the Japanese parent was involved in the JIV's daily operations. The JIV focused on only one value-adding activity: producing shoes. The Japanese parent bought 100 percent of the venture's products and supplied 40 percent of raw materials needed by the

JIV. Major decisions were made by the Japanese headquarters rather than by the JIV's board of directors.

The JIV has achieved good performance since its formation, meeting the Japanese parent's objective of providing low-cost shoes for Japanese markets and the Chinese parents' objective of setting up a model enterprise for potential foreign investors. Thus, none of the parents wanted to reconfigure the venture. Although the Japanese JIV general manager complained that the Japanese headquarters controlled the JIV too much, he had no intention of trying to free the JIV from the Japanese parent's control because he would not have a career in China.

Case 4

This JIV was formed in 1994 by Chinese and Japanese parents that both operated in the capacitor industry. The JIV focused on a single value-adding activity: producing capacitors. Its production capacity was split between the two parents: 70 percent belonging to the Japanese parent and 30 percent belonging to the Chinese parent.¹ The parents benefited from the JIV's dividend as well as product sales.

However, the two parents had achieved unbalanced benefits from the JIV. The Japanese parent was a multinational corporation and had large overseas markets and high sales prices. Thus, this parent mainly benefited from selling the JIV's products and wished to keep the venture's ex-factory price at a low level. The Chinese parent, as a local company, had limited local markets, and its sales price was quite low. Thus, this parent mainly benefited from the JIV's dividends and wished to set the venture's ex-factory price at a high level. Since the JIV's ex-factory price was fixed at a low level, the JIV had almost no profit, and the Chinese parent could not benefit from dividends. Therefore, the Chinese parent was considering ending the partnership. As the JIV's local general manager said, "I think that the Japanese parent is making use of us. We are being cheated. The venture can no longer exist unless both parents can benefit from it."

Case 5

This JIV, established in 1981, was jointly owned by a Chinese governmental bureau in charge of medicine quality and distribution (50 percent of the equity share) and a Japanese medicine producer (50 percent of the equity share). At its founding, this JIV was a dominant-parent venture, with the Japanese parent providing technology and equipment and being involved in the JIV's daily operations, while the Chinese parent only provided access to local market channels. The JIV had achieved satisfactory performance because its products were competitive in the Chinese market. Its performance improved after the Japanese general manager was replaced by a Chinese manager, who emphasized exploiting the local market and learning technology from the Japanese parent.

At the beginning of the 1990s, the Japanese parent proposed to reinvest in the venture to increase its equity share. However, this request was rejected by the local parent because it did not want to lose control over the venture. Then, the Japanese parent invested in other regions in China, and thus the importance of this JIV to the Japanese parent decreased. Even with reduced support from the Japanese parent, the JIV was still very successful in the Chinese market because it had learned technology know-how from the Japanese parent, and its products were very competitive in the local market. Further, since the JIV had penetrated the local market, it did not rely on exporting through the Japanese parent. The JIV's superior performance gave the local JIV managers greater bargaining power with the Japanese headquarters, and under the leadership of the Chinese general manager, it became very independent. The Chinese general manager expected that there would be no expatriates in the firm after 1997.

Case 6

This JIV had two Chinese parents and two Japanese parents. The largest Chinese and Japanese parents had 40 percent and 48.5 percent equity shares, respectively. The JIV had been an independent venture since its founding. None of the parents was familiar with the venture's businesses. The Japanese parent was an equipment producer that aimed to use the JIV as a "window" to show its products to potential Chinese customers, while the Chinese parent was a paper producer that had little to do with the JIV's businesses. Thus, neither of them could integrate the JIV's activities into their own value-adding chains. Also, since the JIV was small and its operations were of a little importance to the parents, the parents would have obtained little benefit from controlling it. The board of directors was the top decision maker. The JIV had performed well from the beginning, and its superior performance had strengthened the local JIV managers' autonomy.

Case 7

This JIV, a shared-management venture, was established in 1986. All the management positions were split between the managers from the Chinese parent and those from the Japanese parent. According to the partnership contract of 1986, 50 percent of the venture's products would be exported to Japan. However, the venture failed to do this because of poor product quality and high costs. Thus, both parents were dissatisfied with the venture's performance.

In 1991, the Japanese parent reinvested in a new assembly line for the venture and increased its equity share from 40 percent to 67 percent. After that, Japanese expatriates controlled the JIV's operations, and the local JIV managers were excluded from decision making. Although the Japanese parent was criticized as having cheated the JIV through internal transfer pricing, the overall performance of the JIV greatly improved. Its new product was more competitive in overseas markets, which further increased the sales of the JIV's

other products. The local general manager stated that they had tried to free themselves from the Japanese parent's control but that it was very difficult because the Japanese parent controlled the exporting channels of the venture's products.

Case 8

This JIV was transformed in 1993 from a large Chinese state-owned firm in the printing ink business with more than 1,700 employees. The initial equity share between the Chinese and Japanese parents was 50/50. This JIV was an independent venture with a complete value-adding chain, and the board of directors was the final decision maker. The JIV's performance was satisfactory, though it sustained losses after the joint venture was formed. However, accounting losses did not result from the operation failures but from increases in employee compensation and the change in the depreciation calculation after the JIV was formed. The main reason that the state-owned enterprise formed the JIV was to facilitate its R&D (research and development) and exports. In fact, the JIV had developed more than ten new products and had expanded its exporting channels with the help of the Japanese parent in the two years since the venture's founding.

In 1994, the Japanese parent reinvested in a raw material supply base in the JIV and increased its equity share from 50 percent to 70 percent. The board composition changed as well. In the past, the board had had five Chinese directors and five Japanese directors, but now it had seven Japanese directors and five Chinese directors. Despite the changes in equity structure and board composition, the JIV still remained independent and was led by the Chinese general manager. The Chinese general manager had been in the state-owned firm for more than 10 years, and his authority had been institutionalized during that time. This was a large and old Chinese firm, and thus it would have been difficult for a Japanese manager to manage it effectively. It was stipulated that a decision could be passed in the board only when more than two thirds of the directors agreed. Thus, the Japanese parent could not control the venture by simple majority.

FINDINGS OF COMPARATIVE CASE STUDIES: ANTECEDENTS OF JIV CONTROL

In this section, we will present the findings of our comparative case studies related to the antecedents of JIV control. We have argued that task interdependence between a parent firm and an JIV represents a primary motive for the parent firm to control the JIV and that the parent's resource contributions help achieve the parent's desired level of control over the JIV. Table 2 presents the two major parents' (one Chinese and one Japanese parent) task interdependences with the JIV, their resource contributions to the JIV, and JIV control for each of the eight cases. Among the eight JIVs, two were

shared-management JTVs (cases 4 and 7), three were dominant-parent JTVs (cases 1, 3, and 5, all dominated by Japanese parent firms), and three were independent JTVs (cases 2, 6, and 8).

The data have suggested various business linkages between the JTVs and their parent firms. While all the JTVs in this study were manufacturing firms, their parent firms consisted of local government bureaus (or local economic development authorities), trade companies, and manufacturing firms. These parent firms exhibited different strategic objectives for joint venturing, including technology acquisition, local market access, profit generation, and simply using the JTV as a "window" to show the foreign parent's products to potential local customers. We also observed considerable differences in these parent firms' resource contributions to the JTVs. Chinese parents usually contributed access to local market channels and local government support, and Japanese parents contributed technology, equipment, and access to export channels.

Table 8.2 demonstrates clear patterns between task interdependence and JTV control. When an JTV had pooled interdependence with both parents, it was an independent JTV, with both parents positioning the JTV in the market (case 6). When an JTV had sequential interdependence with both parents, it was a shared-management JTV, with the parents positioning the JTV in the

Table 8.2
The Patterns of Task Interdependence, Resource Contributions, and Control

| Case | JTV's Task Interdependence with: CP ^a JP ^b | Relative to JP, CP's Resource Contributions: | JTV's Initial Control Structure |
|------|--|--|---------------------------------|
| 1 | Pooled < Sequential | Moderately lower | Dominated by JP |
| 2 | Reciprocal > Pooled | Moderately higher | Independent JTV ^c |
| 3 | Pooled < Sequential | Lower | Dominated by JP |
| 4 | Sequential = Sequential | Approximately equal | Shared-management JTV |
| 5 | Pooled < Sequential | Moderately low | Dominated by JP |
| 6 | Pooled = Pooled | Approximately equal | Independent JTV |
| 7 | Sequential = Sequential | Approximately equal | Shared-management JTV |
| 8 | Reciprocal > Sequential | Higher | Independent JTV ^c |

Notes: ^aCP denotes Chinese parents; ^bJP denotes Japanese parents; ^cIn these two cases, the JTVs were transformed from the Chinese parent firms.

hierarchy (cases 4 and 7). When an JTV had asymmetric interdependence with the two parents, it was dominated by the parent that had higher interdependence with the JTV. Three of the eight cases (cases 1, 3, and 5) were dominated by Japanese parent firms. In these cases, the Japanese parent firms had sequential interdependence with the JTVs, whereas the Chinese parent firms had pooled interdependence with the JTVs. In two other cases (cases 2 and 8), the Chinese parent firms had reciprocal interdependence with the JTVs, while the Japanese parents had pooled interdependence or sequential interdependence. These two JTVs were dominated by local Chinese managers, as predicted. In addition, in these two cases, the Chinese parents were transformed into the JTVs, and the Chinese parent firms, as an entity, did not exist any more. Hence, we categorized these two cases as independent JTVs, led by local Chinese managers, rather than JTVs dominated by the Chinese parent firms.

The data also demonstrated clear patterns between the parent firms' relative task interdependences with the JTV and their relative resource contributions to the JTV. In JTVs where the parent firms had asymmetric task interdependences with the JTV, the parent that had a higher level of interdependence tended to contribute more resources to the JTV (cases 1, 2, 3, 5, and 8) than the parent with a lower level of interdependence. In JTVs that had symmetric task interdependences with the two parents, the parents tended to contribute approximately equally to the JTVs (cases 4, 6, and 7). Based on these findings, we propose the following propositions:

Proposition 1: From a single parent firm's view, a parent firm's task interdependence with the JTV determines its resource contributions to the JTV and the level of its control over the JTV.

Proposition 2: From an inter-parent view, the parent firms' relative levels of task interdependences with the JTV determine their relative resource contributions to the JTV and their relative levels of control over the JTV.

FINDINGS OF COMPARATIVE CASE STUDIES: CONSEQUENCES OF JTV CONTROL

Initial Control Design and Performance

Table 8.3 presents the JTVs' initial control, initial performance, current control, and current performance. Comparing initial control (column 2) and initial performance (column 3), we found that the two shared-management JTVs (cases 4 and 7) had poor performance, while the other types of JTVs had satisfactory or good performance. Closer examination of cases 4 and 7 provided insights into why shared-management JTVs tends to have poor performance. In case 4, the venture's production capacity was split between the two parent firms. Its management positions were also split between Japanese expatriates,

who were in charge of production and product quality, and Chinese managers who were in charge of personnel and public relations. However, the Chinese and Japanese parents had conflicting interests. The Chinese parent wanted to set up a higher ex-factory price in order to benefit more from the venture's dividends, while the Japanese parent preferred a lower ex-factory price in order to benefit more from selling products. The Chinese parent felt that it was being cheated because the current price was fixed at a lower level. Also, the Japanese expatriates always arranged the orders from the Japanese parent prior to those from the Chinese parent, and they often made free use of the production capacity belonging to the Chinese parent.

Case 7 initially was a shared-management venture. For each senior management position, there was a Chinese manager with formal authority and a Japanese manager as a consultant to that position. Although this arrangement was intended to reduce inter-parent opportunistic behaviors, it created bargaining and influence problems. No decision could be made unless both managers agreed. In addition, while the JTV's strategy was to export 50 percent of its end products to the Japanese market, the Chinese managers dominated the production processes. The Japanese headquarters believed that product quality could not meet the standards of the Japanese market and refused to export the products. Hence, the JTV almost could not survive at the beginning. It was not surprising that, later on, the Japanese parent increased its equity share, monopolized the decision making, and exported 70 percent of the end products to the Japanese market.

These cases suggest that managers in shared-management JTVs tend to form subgroups based on their organizational affiliations. They view themselves as safeguards of their parent organizations' interests in the JTV, and they lack confidence in the other group's goodwill in cooperation. The achievement of one group's objectives automatically causes the other group to feel that it has been cheated (a typical response would be, "How can they achieve so much if they do not make use of us?"). Moreover, the fact that both subgroups are involved in decision making in shared-management JTVs increases the chance that members of different subgroups will compare their relative achievements and perceive intergroup conflicts and politics.

The Evolution of JTV Control and Performance

We examined the evolution of JTV control by comparing columns two, three, and four in Table 8.3. We observed that shared-management and dominant-parent JTVs (cases 1, 4, 5, and 7) tended to evolve, while independent types remained stable (case 2, as an exception, will be discussed later). More specifically, shared-management JTVs tended to evolve toward the dominant parent type (case 7), and dominant-parent JTVs tended to evolve toward the independent type (cases 1 and 5). We did not observe design reconfiguration in case 4 because of its short history at the time of interview.

Table 8.3
The Dynamic Relationships between JTV Control and Performance

| Case | Initial Control | Initial Performance | Current Control | Current Performance |
|------|-----------------|---------------------|------------------|---------------------|
| 4 | Shared | Poor | To be liquidated | Poor |
| 7 | Shared | Poor | Dominant | Satisfactory |
| 3 | Dominant | Good | No evolution | Good |
| 1 | Dominant | Satisfactory | Independent | Satisfactory |
| 5 | Dominant | Satisfactory | Independent | Good |
| 6 | Independent | Good | No evolution | Good |
| 8 | Independent | Satisfactory | No evolution | Satisfactory |
| 2 | Independent | Satisfactory | Dominant | Poor |

Note: Performance ranking: Good > Satisfactory > Poor.

We observed that JTV performance has an important feedback impact on the evolution of JTV control. Shared-management/dominant-parent JTVs are more likely to be reconfigured over time if they have poor or satisfactory performance (cases 1, 4, 5, and 7). In contrast, an JTV with good performance tends to be stable over time even if it is a dominant-parent JTV (case 3). Our data (except case 2) demonstrated that stable JTVs tend to be: those that have good performance, regardless of their control structure; and those that are independent, regardless of their performance. The overlap of these two sets of JTVs is the independent JTVs with good performance, which represent the ultimate destination of the evolution of JTV control. The results suggest that the evolution of JTV control has a strong tendency toward independence, evolving along a continuum from a shared-management JTV, through a dominant-parent JTV, to an independent JTV. Moreover, poor JTV performance tends to accelerate this process, and good JTV performance may delay the process. The finding that independent JTVs with good performance serve as the end point of JTV evolution indicates that the purpose of JTV evolution is to build the JTV as a successful independent firm operating in the Chinese market.

To examine the performance consequences of the evolution of JTV control, we compared columns four (JTV evolution) and five (current performance) in Table 8.3. Across the seven cases (except case 2), we found that the evolution of JTV control had resulted in similar or better performance. For example,

case 7 evolved from a shared to a dominant type, which increased performance from a poor to a satisfactory level. Case 5 evolved from a dominant to an independent type, resulting in increased performance from a satisfactory to a good level. Although the evolution of case 1 from a dominant to an independent type did not increase the firm's performance significantly, it still maintained its performance at a satisfactory level. The cases (cases 3, 4, 6, and 8) where no evolution occurred remained at their original performance levels.

Case 2 represented an exception in our data. This venture started with an independent JTV led by a Chinese general manager and satisfactory performance. Later, the Japanese parent attempted to reconfigure the firm into a dominant-parent JTV, but this attempt raised conflicts between the Chinese general manager and the Japanese headquarters, which resulted in reduced (from satisfactory to poor) performance (see Table 8.3). During the interview, the Chinese general manager was very emotional in discussing the reconfiguration issues. He claimed that, "I cannot accept the reconfiguration plan. I have called for all employees to resist the consulting team sent from the Japanese headquarters. I will fight them in board meetings." We interpreted the general manager's reaction in two ways. First, this reconfiguration attempt was emotionally unacceptable to him because he viewed the JTV as his and the employees' firm, not the Japanese headquarters' subsidiary. Second, he might have been afraid of losing power in the venture if it were reconfigured into a dominant-parent JTV in which the Japanese headquarters would dominate the decision making and into which Japanese expatriate managers would come. The case suggested that the local manager's autonomy in an JTV has little elasticity. Once local managers are empowered, it would be difficult to take away their power later on. Based upon the previous discussions, we summarize the dynamic relationship between JTV control and performance into the following propositions:

Proposition 3: Shared-management JTVs tend to have worse performance than dominant-parent JTVs and independent JTVs.

Proposition 4: Successful JTVs tend to be stable over time. The poorer the JTV performance, the more likely that its control structure will evolve over time.

Proposition 5: JTV control structure tends to evolve over time along a continuum from a shared-management type, through a dominant-parent type, toward an independent type, with successful and independent JTVs as the ultimate end of the evolution path.

Proposition 6: JTVs that evolve along the proposed evolution path tend to have better performance, while JTVs that evolve against the path tend to have poorer performance.

DISCUSSIONS OF THE INTEGRATED FRAMEWORK OF JTV CONTROL

A Portrait of JTV Control

Our analyses of the eight China-Japan JTVs suggest an interesting portrait of JTV control. Our findings support the notion that parent firms vary in their intent to control their JTVs. This is probably because control of JTVs has both benefits and costs. On the one hand, tightly controlling an JTV has the benefits of determining how best to use the JTV's resources for the parent firm's purposes (Mjoen and Tallman 1997) and for protecting the parent firm from premature exposure of its technologies to the other parent (Geringer and Hebert 1989). On the other hand, tight control of an JTV may also result in increased bureaucratic costs—which can be viewed as the transaction costs associated with hierarchy (Jones and Hill 1988).

The bureaucratic costs of control depend upon the achievement of economies of scale in the parent firms' management skills (Buckley and Casson 1988). When the parent firm is related horizontally to the JTV (a situation involving reciprocal interdependence), required management skills for the parent firm and the JTV are quite similar. The parent can thus achieve economies of scale in its management abilities. In contrast, when the JTV is unrelatedly diversified from the parent (a situation involving pooled interdependence), the parent is less likely to be familiar with the JTV's domains. It may lead to managerial dis economies arising from the scale and diversity of the resultant firm when the parent firm attempts to closely control the JTV (Buckley and Casson 1988). Thus, we argue that the prevailing assumption in the prior literature that the parent firms struggle for control of the JTVs is incomplete at best. Instead, parent firms may choose the optimal level of control over the JTVs in accordance with their task interdependence with the JTVs. Control struggle occurs only if both parent firms want to tightly control the JTV.

Our data also suggest a consistent pattern among parent firms' relative task interdependences with the JTVs, their relative resource contributions to the JTVs, and their relative control over the JTVs. These results support Inkpen and Beamish's (1997) argument that parent firms' resource contributions to the JTV do not occur automatically. Our results suggest that parent firms' resource contributions to the JTV are triggered by their task interdependence with the JTVs, with the purpose of helping achieve the parent firms' desired level of control over the JTVs.

Our results also suggest that parent firms' control over JTVs represents a double-edged sword to the JTVs (Zhang and Li 2001). On the one hand, parent firms' control reduces the JTV managers' autonomy in decision making, and it may even lead to poor performance (Killing 1983). On the other hand, a high level of control by a parent firm is associated with a high level of resource contributions from the parent. For example, during the first several years of operation, case 5 was dominated by the Japanese parent that supplied

technology, equipment, and raw materials to the JIV. The success of this JIV at the early stage depended heavily upon the foreign parent's support with products and technology. As the venture freed itself from the foreign parent's control to become an independent firm, the support from this parent also decreased.

Similarly, in case 6, the local general manager enjoyed extreme autonomy in decision making, but he could not get support from the parent firms. He complained that, "we need capital to expand the production capability and promote the products. But none of the parent firms has an interest in reinvesting in the venture. We have to solve these problems by ourselves." These findings indicate that JIV managers should balance parent firms' control and their pursuit of autonomy, especially at the early JIV stage.

Evolution of JIV Control

Our findings about the evolution of the JIV control structure coincide with the failure cycle in shared-management JIVs identified by Killing (1983). He found that there existed a common pattern of shared-management JIVs in decline: poor venture performance leads to the parent firms monitoring the JIVs' activities closely, which lowers the autonomy of JIV managers. Low autonomy of JIV managers and high intervention from the parents are likely to slow and confuse the decision making process in the JIVs, which may cause performance to worsen further. This in itself encourages the parents to become even more closely involved, and so the downward cycle continues.

The current study and Killing's work (1983) have revealed a critical issue in JIV management: independence (or autonomy) and success are twins in JIVs from a dynamic view. Indeed, these two studies describe the same coin from different sides. While Killing (1983) found that low autonomy may cause failure and that failure further lessens autonomy, our study suggests that high independence will lead to success and that success further enhances independence. However, our study has advanced Killing's (1983) study by addressing how an JIV evolves across the three types of JIV control structures, while his study focused on shared-management JIVs.

Our results suggest that successful and independent JIVs represent the ultimate JIV control evolution. This finding is somehow contradictory to the view that JIVs (or strategic alliances in general) are temporary organizational arrangements between two (or more) organizations, which may be terminated once the parent firms have achieved (or cannot achieve) their objectives. This view has been developed mainly in examining JIVs/alliances between firms in developed countries. In these JIVs/alliances, the managers are likely to have their careers within their parent firms rather than in the JIVs/alliances. Hence, these managers tend to emphasize the achievements of their organizations' objectives over the JIVs/alliances' growth and independence. In contrast, in JIVs in an emerging economy, local managers are unlikely to pursue their careers in the foreign parent's organization. Most local parent firms of these

JIVs are state-owned enterprises or local government agencies, where these local managers do not want to or cannot pursue their future careers. These local managers will pursue their careers within the JIVs or in other firms in the local labor market. Therefore, developing the JIVs into successful and independent entities in the local market will be in the interest of these local managers. Thus, managers (especially the local managers) of JIVs in an emerging economy tend to be very entrepreneurial and to be committed to the JIVs rather than to the parent firms. In conclusion, based upon the data from eight international joint venture (JIVs) operating in China, we have developed an integrated framework for JIV control, which tries to answer questions such as: When do parent firms want to control an JIV? How does an JIV's control structure evolve over time? and What is role of performance in such an evolution? We believe that our study will contribute to the JIV literature by providing a more comprehensive and dynamic view of JIV control, particularly in the context of an emerging economy.

**Appendix
Examples of Interview Questions**

| Interview Category | Example |
|---|--|
| Dominance of the parent firms | <ol style="list-style-type: none"> 1. How much was the total investment in this venture? How was the ownership split between parent firms? 2. What did each parent firm invest in the venture (e.g., capital, equipment, or technology)? 3. How many directors are on the board, and how is the board membership split between parent firms? 4. What decisions are made within the venture, and what decisions should be referred to the headquarters of parent firms? |
| The JIV's value adding chain | <ol style="list-style-type: none"> 1. What are the major businesses of the venture? 2. What are the major businesses of each parent firm? 3. What were the main objectives of each parent firm in the venture? 4. What percentage of your venture's products is sold by each parent firm, and what percentage of your venture's raw materials is provided by each parent firm? |
| Organizational affiliation of the general manager | <ol style="list-style-type: none"> 1. Who is the general manager of your venture? Is this person a Chinese or a Japanese? 2. Who appointed this person, and who pays him? |
| Performance | <ol style="list-style-type: none"> 1. How would you assess the performance your venture? 2. What are the major problems your venture has solved? 3. What are the major problems your venture is facing now? 4. How would you evaluate the relationship between your venture and the parent firms? 5. Has overall performance reached initial expectations? |

NOTE

1. The split of the JIV's production capacity between the two parents did not parallel their equity shares because the JIV wanted to qualify for some priority treatments from the Chinese government. The priority treatments were given only to JIVs that exported 70 percent or more of their products.

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