

Inter-Partner Relationships and Performance in Western-Chinese Joint Ventures: An Interaction Approach

A thesis submitted to the Middlesex
University Business School in partial
fulfilment of the requirements for the
degree of Doctor of Philosophy

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October 2006

ACKNOWLEDGEMENTS

Completion of this thesis would not have been possible without the help and support from a large number of individuals.

First, I am very grateful to Dr Ross Brennan for undertaking to supervise this research. I believe I have benefited tremendously from his guidance, constructive comments, and wealth of experience. Certainly completion of this study would have been highly unlikely without his support. Second, I would like to thank Professor Jonathan Liu for his contribution in helping compile the questionnaire and information on aspects of Chinese culture. Conducting Cross-cultural research is by no means an easy task, so I was fortunate to have an input from a Chinese perspective.

Third, I wish to thank all participants who assisted me during my research. This includes members of Guangdong Educational Delegation who kindly participated in the pilot study: Mr Han Dongcai (Head of the Delegation), Mr Zhon Feng, Mr Yang Gan, Mr Wang Shouchuan, Mr Wei Xumin, Mr Lin Luohai, Mr Wen Deren, Mr Liang Qiujin, Ms Lin Shanfen, Ms Yan Hong, Ms Liu Yuping, Mr Li Jinjun, Mr Guo Peiguang and Mr Shi Shaoxing.

For the main study, many individuals from academia, as well as the commercial sector took part. Although there are too many to mention, special thanks go to the following: Alan Reid (Reid Associates), Bill Thomson (Clyde Blowers), Richard Price (London International), Cecil Lee (P&O), Justin Lees (B&Q), Sherry Hao (KPMG), Wang Yi (Bank of China), Stuart Wall (Anglia Ruskin University), Lester Lloyd-Reason (Anglia Ruskin University) and Terry Mughan (Anglia Ruskin University).

Finally, my heartfelt thanks go to my wife Julie and daughter Jemma. Without their love and endless support, it would have been impossible to complete.

CONTENTS

Page

Acknowledgements	2
Abstract	7-8
Abbreviations	9
Illustrations	10
List of tables	11

CHAPTER ONE: INTRODUCTION

1.1	Background to the Study	12-15
1.2	Statement of the problem	16-17
1.3	Objectives of the study	18-21
1.4	Layout of the study	21-24
1.5	Framework	24-25
1.6	Usefulness of the study	26-27

CHAPTER TWO: DEVELOPMENT OF RELATIONSHIP RESEARCH

2.1	Introduction	29
2.2	The IMP Group and Inter-organisational relationships	29-36
2.3	The Interaction Approach	36-38
2.4	The Network Approach	38-41
2.5	Foreign Direct Investment (FDI) Relationships	41-44
2.5.1	Trust	45-52
2.5.2	Commitment	52-56
2.5.3	Co-operation	57-58
2.5.4	Satisfaction	58-60
2.6	Cultural Analysis	60-64
2.7	Chinese Cultural Values	65-71

2.7.1	<i>Guanxi</i> (personal connections)	71-75
2.7.2	<i>Mianzi</i> (face)	75-78
2.7.3	<i>Renqing</i> (reciprocity)	78-79
2.7.4	<i>Xinyong</i> (Trust)	79-80
2.7.5	Concept of Time	80-82
2.7.6	Chinese Management	82-87

CHAPTER THREE: DOING BUSINESS WITH CHINA

3.1	Introduction	88
3.2	Background to the People's Republic of China	88-90
3.3	FDI in China	90-96
3.3.1	Performance and IJV success factors	97-100
3.4	External Influences on International Joint ventures	100
3.4.1	Market conditions	100-102
3.4.2	Political / legal factors	102-105
3.5	WTO Accession and changes to operational modes	105-108
3.5.1	Duration of joint ventures	109-111

CHAPTER FOUR: RESEARCH METHODOLOGY

4.1	Introduction	112
4.2	General review of research design	112-114
4.3	<i>Qualitative study</i>	114-115
4.3.1	Sampling	116-119
4.3.2	Data collection	120-121
4.3.3	Measurement variables and issues	122-127
4.3.4	Data analysis	127-128
4.4	<i>Quantitative Study</i>	129-130
4.4.1	Sampling	130-132
4.4.2	Data collection	132-137

4.4.3	Measurement variables and issues	137-139
4.4.4	Data analysis	140
4.5	Secondary analysis	140-141
4.6	Reliability and validity	141-146
4.7	Cross-cultural research	146-152
4.8	Internal measurement issues	153-155
4.9	Data analysis plan	155-156

CHAPTER FIVE: RESULTS AND ANALYSIS

5.1	Introduction	157-158
5.1.1	Nature of the industry and size of firms	159-160
5.2	Strategic objectives of the Western parent company	160-165
5.3	Achievement of strategic objectives	165-170
5.4	Means of first contact	170-173
5.5	IMP constructs, exchange episodes and performance	173-182
5.6	Relationship values and performance	182-184
5.7	Chinese cultural values and performance	184-197
5.8	Future relationship	197-202

CHAPTER SIX: CONCLUSION AND RECOMMENDATIONS

6.1	Introduction	203-206
6.1.1	Discussion on IMP construct measures and performance	206-208
6.1.2	Discussion on China's cultural values and performance	208-210
6.1.3	Examining the impact of China's WTO entry on the JV relationship	210-211
6.2	Contribution statements	211-214
6.2.1	Managerial implications	214-219
6.3	Limitations of the study	220
6.3.1	Level of interaction	220

6.3.2	Sample population	220-221
6.3.3	Measurement issues	221-222
6.3.4	Time factors	222-223
7.0	Environmental change	223-224
8.0	Future research	224-226
9.0	REFERENCES	
	APPENDICES	
A.	List of publications and presentations resulting from the research	
B.	Interaction approach model	
C.	Summary of measures	
D.	Questionnaire	
E.	Morgan and Hunt (1994) KMV model	
F.	Model of market entry decision-making and operational change	

ABSTRACT

Although relationships, interaction and networks in business markets have been well documented (Turnbull and Cunningham, 1981; Håkansson, 1982), there is a lack of research analysing relationships between international joint venture partners. A joint venture parent company needs to understand how to interact with their partner, together with the impact cultural values have on performance, in order to prevent possible conflict. Many of the empirical studies into joint venture performance have focused on measures such as control, financial data and partner satisfaction (Killing, 1983; Beamish, 1984; Geringer and Herbert, 1991; Yan and Gray, 1994). China's recent entry into the World Trade Organisation, underlines the importance of understanding the influence cultural values have on performance.

This project is an empirical study into inter-partner relationships and performance in Western and Chinese joint ventures. The research primarily focuses on the Western parent perspective. Most of the relationships studied featured British firms. Measures are used to examine how interaction constructs, exchange episodes, and cultural values in these relationships impact joint venture performance. China's accession to the WTO is also addressed as a possible change factor to existing joint venture relationships. This project draws on literature on inter-firm relationships from the IMP tradition in industrial marketing, from Chinese management studies, and from the field of cultural analysis. Since the research is cross-cultural, emic and etic constructs that can be used in the measurement of the joint venture have been applied in order to attain conceptual equivalence.

Methodological triangulation is used to address the research questions. First, a total of 25 interviews were conducted with mostly British parent company managers responsible for establishing, and/or involvement with the joint venture. Second, a questionnaire survey was administered to 'fill in gaps' identified by the qualitative study. This produced a total of 57 responses.

Findings suggest that cultural values, in particular *guanxi*, continue to be regarded as an important part of relationships in Chinese and Western joint ventures. Based upon the case findings, the author proposes an empirically testable model of factors impacting joint venture performance. These factors include (1) Commitment; (2) Cultural understanding; (3) Control; (4) Communication; (5) Co-operation and (6) Consensus.

The research contributes to the three bodies of literature: IMP, foreign direct investment and Chinese cultural values, by illustrating how combining elements of these disciplines can be applied in the context of joint venture performance.

ABBREVIATIONS

AAR	Actors-Activities-Resources Model
CBBC	China Britain Business Council
CJV	Cooperative Joint Venture
CTS	China Travel Service
EJV	Equity Joint Venture
FDI	Foreign Direct Investment
FIE	Foreign Invested Enterprise
FISC	Foreign Invested Share Company
GEC	General Electric Company
IJV	International Joint Venture
IMP	Industrial Marketing and Purchasing Group
IPR	Intellectual Property Rights
JV	Joint Venture
KMV	Key Mediating Variable Model
MNCs	Multinational Companies
MNE	Multinational Enterprise
MOFTEC	Ministry of Foreign Trade and Economic Cooperation
PMCC	Pearson's product moment correlation coefficient
QMS	Quality Management System
RM	Relationship Marketing
RMB	Renminbi (Chinese currency, Yuan)
SME	Small Medium Sized Enterprise
SOE	State Owned Enterprise
TQM	Total Quality Management
WTO	World Trade Organisation
WFOE	Wholly Foreign Owned Enterprise
CNW	Company Name Withheld (for confidential reasons)

FIGURES

ILLUSTRATIONS

Figure 1.1	Framework	26
Figure 4.1	The key constructs of <i>Guanxi</i>	124
Figure 5.1:	Bar chart showing number of employees	160
Figure 6.1:	6C model of IJV Success Factors	216

DIAGRAMS

Diagram 1.1:	Thesis structure	28
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LIST OF TABLES

Table 1.1:	Top 10 leading FDI countries in China	13
Table 1.2:	FDI by type of investment, 1992 and 1996	18
Table 2.1:	Comparing definitions of trust in inter-firm relationships	47
Table 2.2:	Differences between monochronic and polychronic time systems	80
Table 2.3:	A comparison of Chinese and Western approaches to management	86
Table 3.1:	China's Top Trade Partners (\$ million)	92
Table 4.1:	Details of interviewees (25 in total)	119
Table 4.2:	Coding frame for qualitative research	126
Table 4.3:	Example of how coding frame was established	127
Table 4.4:	Studies on joint ventures in China	132
Table 4.5:	Conceptual differences between key variables	152
Table 4.6:	Data analysis plan	155
Table 5.1:	Age range of Western partners + mean	158
Table 5.2:	Industrial sectors represented in the survey (quantitative)	159
Table 5.3:	Strategic objectives of Western partner	161
Table 5.4:	Achievement of strategic objectives	168
Table 5.5:	Means of first contact between partners	170
Table 5.6:	Content analysis: Factors in IJV performance	177
Table 5.7:	Correlation analysis: IMP constructs & relationship value	178
Table 5.8:	Important factors	179
Table 5.9:	Cross-tabulation relationship value & performance	182
Table 5.10:	Mean value of relationship value	183
Table 5.11:	Frequency table (Chinese culture)	189
Table 5.12:	Do you think you may opt to become a WFOE in the future?	198
Table 5.13:	Preference for WFOE's compared to other market entry options	201

CHAPTER ONE: INTRODUCTION

1.1 Background to the study

Since opening its economy to the world in 1979, China's 'open door' policy has allowed the country to emerge as a major market for multinational companies, and also one of the largest recipients of foreign direct investment (FDI). It remains the largest recipient of FDI among all developing countries. Many Western companies, such as GEC, Volkswagen, Chrysler and British Petroleum, have developed international joint ventures (IJVs), manufacturing sites and other forms of business relationships with Chinese State Owned Enterprises (SOEs). Not only large multi-nationals, but also SMEs are finding China an attractive market place. For example, Cherry Valley Farms Ltd is a medium sized duck producer based in Lincolnshire, UK. The company has overcome elements of hostile protectionism to become a major player in China's duck market. A remarkable achievement considering the long established popularity of Peking duck!

Table 1.1 shows the leading FDI countries in China. Although Hong Kong returned to China in 1997, under the Chinese governments 'one country - two systems' policy, it still produces its own figures. The UK continues to be Europe's leading investor in China. The close relations between the two countries reflect this. This rapid growth in co-operative arrangements in China, an overwhelming majority of which are equity joint ventures (EJV), presents a challenging opportunity to study international alliances in a new institutional context (Child, 1991) and thus has led to a growing literature on foreign direct investment in China. However, the majority of empirical research has either focused on macro environmental issues or the joint venture development process. There are a number of empirical studies into joint venture performance (Killing, 1983; Geringer and Herbert, 1991; Yan and Gray, 1994), yet very few studies focus on the influence of cultural values. These cultural values play an important part in Chinese business. For example, Yeung and Tung (1996) identify *guanxi* (interpersonal connections) as one of the most important key success factors in doing business in China. This is particularly

important for those Western firms engaged in international joint ventures (IJV). Each parent company in the joint venture has a portfolio of exchange relationships, which must be managed effectively in order to sustain a co-operative working partnership. The effectiveness of these relationships can be measured in different ways and are influenced by cultural, environmental, political and social factors. Relationship building takes time, but it is vital to doing business effectively in China (Osland and Björkman, 1998).

Table 1.1: Top 10 leading FDI countries in China

Position	Major investing countries (Jan-Sept, 2002)	Foreign investment \$ Million
1	Hong Kong	20,950.1
2	Virgin Islands	10,187.5
3	United States	7,332.1
4	Taiwan	5,716.0
5	Japan	4,555.6
6	South Korea	4,035.4
7	Singapore	2,612.4
8	Cayman Islands	1,779.5
9	Britain	879.2
10	Germany	690.8

* Source: MOFTEC = from China Monthly Statistics, December 2002

The importance of business relationships in business markets has been well documented by the Industrial Marketing and Purchasing (IMP) group. Founded in 1976 in order to carry out research into the nature of buyer-seller relationships, rather than concentrate on traditional marketing perspectives, early research focused on the patterns of interaction between the two partners to a relationship (Håkansson, 1982). IMP focuses on business-

to-business (B2B) relationships. This body of literature is both relevant and important for this study, as it also looks at B2B relationships in the context of joint ventures.

As a result of extensive research using a case study approach the IMP group proposed a framework to guide the development of buyer-seller relationships in business markets. This approach is known as the interaction approach (*see appendix B*) (Turnbull and Cunningham, 1981; Håkansson, 1982). The interaction approach takes the relationship as its unit of analysis rather than the individual transaction. The focus of the IMP model is on the factors, which lead to close relationships between buyer and seller. It is concerned with the process of product, informational, financial and social exchange episodes between parties. The resulting cooperation between members of both firms often results in adaptations which either firm may make in the elements exchanged or the process of exchange. Companies choose to engage in relationships to improve efficiency of transactions. However, one partner may decide to dictate the level of cooperation, commitment and future direction as buyers and suppliers have different levels of bargaining power (Porter, 1980).

Although there has been substantial research on buyer-seller relationships conducted by IMP researchers, inadequate attention has been paid to the dyadic interactions between IJV partners. In particular, how interactions impact joint venture performance. The majority of research into IJVs is based on American firms in China, which come under the heading of 'Western' firms. Obviously UK firms adopt different business and cultural practices; therefore a gap needs to be filled that explores UK firms in particular. Relatively little systematic data exist, however, on the motivation and partner selection of Chinese joint ventures from the UK firm's perspective (Glaister and Wang, 1993, p.15). Although this project falls under the title of 'Western', it aims to fill this gap by mainly examining how interaction constructs, exchange episodes, and cultural values in these relationships impact joint venture performance.

Performance measures are based on achievement of partner strategic objectives (Yan and

Gray, 1994). The authors argued that the extent to which these have been achieved is the most appropriate measure of IJV performance, as traditional measures such as market share; profit and growth are fairly meaningless for new ventures in the China market. This view is echoed by Hatfield *et al.* (1998), who noted financial and objective measures are often difficult to come by, and do not take into account non-financial measures. Other researchers that have shown a preference for subjective measures include Killing (1983) and Beamish (1984). Methods used to measure IJV performance will be discussed in 3.3.1.

The need to increase empirical research into Western-Chinese joint ventures is endorsed by China's entry into the World Trade organization (WTO), hosting of the Olympics and closer relations with the West. Combine this with continuing year on year impressive economic growth; it is no wonder that an increasing number of companies are seeking a presence in China. An illustration of one market experiencing massive growth is the car industry. Beijing alone now has in the region of 2 million cars, with many Chinese seeing car ownership as a key indicator of social status. However, increased demand does not necessarily guarantee success. Ultimately this requires an insight into China's business, social and economic environments. Another example of how the country is not only opening up to the West, but adopting Western values was the hosting of the 2003 Miss World Contest in the historical city of Xian, home to the Terracotta Warriors. For such an event to take place would have been unthinkable even 20 years ago.

Like many Western countries, the UK government recognises the importance of maintaining successful relations with China. Political and business relations between the two countries remain strong. March 2002 marked the 30th anniversary of diplomatic relations between the two countries.

1.2 Statement of the problem

The research problem is the specific problem or issue, which will be addressed by the research (Hussey and Hussey, 1997). The purpose of this study is to examine how interaction constructs, exchange episodes, and cultural values impact joint venture performance. The focus is primarily on the Western parent company, although one Chinese case is included – A leading Chinese bank. The relationship between parent firms can have a critical bearing on the venture's performance (Child and Lu, 1996). The relationship is vital for both parties, since neither can achieve long-term strategic objectives operating alone. Comparisons will also be made with previous research into joint venture relationship studies. There has been very little research into joint venture relationships, particularly between UK and Chinese companies. The majority of research has concentrated on creating a joint venture in China (Davidson, 1987, Aiello, 1991) or buyer-seller relationships (Ford, 1980; Wilson and Mummalaneni, 1989; Frear, *et al.* 1992). A few studies have examined channel relationships between UK and Chinese companies (Li, 1997; Buttery and Leung, 1998). A number of prior studies of UK-Chinese IJVs have been identified: (Glaister and Wang 1993; Glaister and Wang 1994; Glaister 1995; Glaister and Buckley 1998 and Glaister *et al.* 1998). For example, Glaister and Wang (1998) compared measures of performance in UK international alliances. They considered the relationship between objective and subjective measures of alliance performance. Of the objective performance measures the authors found survival had the strongest and most significant set of correlations with overall subjective performance measures. However, objective performance measures of duration and stability were found to be weak and non-significant. It is worth noting given that Glaister and Wang's study is based on UK international alliances, that the findings are particularly relevant to this study. However, unlike Glaister and Wang's study, this research focuses on IJV performance, rather than the relationship between measures. There appears to be only one study into the trends of UK IJVs – Glaister *et al.* (1998) suggests characteristics of UK IJVs with triad (North America, Western Europe, Japan) and non-triad partners (China included). These are as follows:

1. The flow of new UK IJVs rose slowly in the early part of the 1990s before growing more strongly to reach a peak in 1995.
2. The majority of IJVs were formed with partners from the Triad of advanced economies, particularly partners from Western Europe and North America.
3. Just over half of the IJVs were formed in the tertiary sector, with the leading industry categories of IJV formation being 'other services', financial services, and 'other manufacturing', which together accounted for about half of the IJVs.
4. In the majority of cases there is only one foreign partner in the IJV, with no IJV having more than four foreign partners.
5. Where the UK partners' equity shareholding is known, in about 28 per cent of cases there is an equal division of equity between partners, with the UK partner having at least a half share in about 70 per cent of cases.

In today's global environment, an increase in takeovers, mergers and joint ventures is resulting in many industries becoming concentrated. Joint ventures may have special characteristics, which include levels of cooperation, company interaction and impact of cultural values on performance. They are often regarded as a high-risk mode of internationalization with high levels of dissolution; therefore research into this type of market entry method is of particular importance. In recent years, joint ventures appear to be falling out of favour with a number of Western companies, although not a primary objective, this issue will be addressed as part of the qualitative study.

The research draws on my own experiences having worked for the Chinese Government Travel Firm - China Travel Service (CTS), and subsequently travelled within China. Also, my wife is from Beijing, and has many business dealings with companies based on the mainland and in Hong Kong. Therefore, I have first hand knowledge of China and am fortunate to have access to companies suitable for this study. Finally, I have a lower-intermediate level of Mandarin Chinese. This has proven to be a very effective 'ice-breaker'!

1.3 Objectives of the study

A common form of FDI in China continues to be the joint venture (*see table 1.2*); therefore it is important for those firms considering entering the country to have a greater insight into interpartner relationships. A joint venture becomes an international joint venture when at least one parent is headquartered outside the venture's country of operation, or if the JV has a significant level of operations in more than one country (Geringer and Herbert, 1989). Most IJVs only have one foreign partner in the joint venture (Glaister *et al.* 1998), so it is the responsibility of each parent to have a full understanding of his or her partner before establishing a joint venture relationship. Both parent firms need to interact on a regular basis, as well as understand each other's cultural values and strategic objectives.

Table 1.2: FDI by type of investment,

Type of investment	1992			1996		
	No of projects	Value (\$m)	% of total	No of projects	Value (\$m)	% of total
EJV	34,354	29,128.5	50.1	12,628	31,876.4	43.5
CJV	5,711	13,255.5	22.8	2,849	14,297	19.5
WFOE	8,692	15,696.2	27.0	9,062	26,810.3	36.6
Total	48,764	58,123.5	100	24,556	73,276.4	100

Sources: SSB, China Statistical Yearbook, 1994 and 1997

These figures clearly indicate the popularity of the joint venture. Later in the study (3.5) more up-to-date figures show how operational mode preference has changed over time.

As Europe's leading investor in China, research into the relationships between British and Chinese companies are particularly important. Therefore, although the purpose of this study is to examine the impact of interaction, exchange episodes and cultural values on Western-Chinese joint venture performance, this involves examining largely British firms.

Although the ventures are evaluated from the parent perspective, there are a number of different opinions involved in an IJV. For example, an IJV may consist of more than two parent companies; also the IJV management needs to be considered. The EJV may be performing well, but at the expense of one parent's interests, for example because the EJV chooses not to source inputs from this parent. From one parent's perspective the EJV is performing poorly, with the venture being rated differently depending on the parent viewpoint adopted (Glaister and Buckley, p.93, 1998). In principle, therefore, performance evaluation should incorporate multiple viewpoints. Ideally, this would involve a dyadic perspective, incorporating managers from the IJV and both parent companies. In reality this is very difficult to do when conducting cross-cultural research, particularly in China. Not having appropriate contacts '*guanxi*' makes it near on virtually impossible to access certain individuals and/or data. This view is echoed by Geringer and Herbert (1991) in their study into measuring performance of IJVs. They argue that in circumstances where pursuit of respondents from more than one of the entities in an IJV represents an impossible or extremely difficult proposition, the use of a single respondent per IJV appears to allow researchers to obtain fairly reliable and efficient data for overall IJV performance. Reliance on a single parent company respondent as a data source appeared to be a justifiable option when the respondent represented one of the key stakeholders (i.e., the parent company executive with direct responsibility for the IJV).

Cases were selected for the qualitative part of the research. Selection was made on the basis of location, industry, time of IJV formation and willingness to participate in the study. The purpose of selection of cases was to provide a range of experiences from which insights may be drawn, rather than to provide the basis for a representative survey. The cases are therefore diverse in terms of IJV size, location, industry and time of IJV formation. Child (2002) used the same approach in the study of 20 Sino-UK joint ventures and their parent companies.

Given the 'gap' in terms of research into UK-Chinese IJVs, the selection for the qualitative study was largely based on UK parent companies (all bar one – Chinese parent). This was

then followed by primary data collection that involved responding to an e-mail survey. A total of 57 Western parent company managers participated, all of which were responsible for establishing and/or involvement with the IJV. In many studies this may be regarded as a small sample, however, in joint venture research this is a reasonable size. For example, Beamish (1987) based his study into joint ventures in less developed countries on 46 interviews and 18 questionnaires. Hatfield (1998, p.359) illustrate the difficulty in developing a reasonable sample size 'identifying joint ventures in the population base was complicated by the fact that firms are not required by law to report their joint venture activity. Therefore, such activity may or may not be reported in a firm's financial statements or the business press.'

The nature of the sample was established using snowball sampling. Reasons for this are fully explained in the methodology. A total of twenty-five semi-structured interviews with managers/directors responsible for setting up and/or actively involved with the IJV were undertaken, representing a total of twenty-one companies. These were conducted both in the UK and China and were based on a combination of face-to-face and telephone interviews. Ideally, all interviews would have been based on face-to-face, however, due to time constraints and limitation of resources, this was not possible. In some cases representatives for UK parent firms were based in China. This was mainly because they were posted to their company's Chinese office, and/or playing an active role in the IJV. Qualitative data analysis involved developing a coding frame, then analysing the data in order to apply the various codes. This allowed for data reduction, the determination of frequency, along with establishing patterns in the data. Content analysis was also applied, as it is a means for analysing qualitative data (Easterby-Smith *et al.* 1991). The majority of IJV research is based on quantitative studies (Beamish, 1987; Luo, 1995, Hatfield *et al.*, 1998). However, Child (2002) illustrated the effectiveness of qualitative research for exploratory research into Sino-UK IJVs. This study follows this approach by 'principally analysing relatively qualitative information and is based on comparisons between cases. Its intention is exploratory in nature, aimed at advancing tentative propositions rather than drawing generalized inferences (Child, 2002).

The objectives for this study are as follows:

- Understand why each party wanted to establish the joint venture (strategic objectives)
- Determine to what extent these objectives have been achieved
- Examine how exchange episodes impact joint venture performance
- Learn how different IMP constructs and cultural values in these relationships impact joint venture performance
- Examine the impact of China's WTO entry on the joint venture relationship

Achievement of the aim requires the following:

- Establish the impact of culture on the joint venture relationship
- To understand the FDI development process for both UK and Chinese partners
- Compare findings of FDI relationships with previous research into inter-organisational international relationships, and draw relevant conclusions from this analysis
- Establish the impact of micro and macro environmental factors on the relationship
- Assess the changing government regulations due to WTO entry

1.4 Layout of the study

This study firstly reviews the literature on the development of relationship research. It examines the development of relationship theory, the input the IMP Group has on interaction, networks and relationships and existing empirical studies on foreign direct investment relationships. The key IMP constructs: cooperation, trust, commitment and satisfaction are also discussed. There has been much research on the interactions between business relationships by the IMP group, although this has tended to focus on buyer-seller relationships rather than different forms of business relationships e.g. joint ventures, strategic alliances, and franchising. Buttery and Leung (1998) suggest proponents of the IMP Group are likely to move towards eastern methods of negotiation and an empathy with concepts like *guanxi*. Key IMP constructs – trust, commitment, and co-operation are

examined in terms of their relationship to performance. Following Morgan and Hunt's (1994) seminal paper, trust and commitment have been examined by a large number of researchers as important factors in maintaining positive relationships between partners. When both commitment and trust – not just one or the other – are present, they produce outcomes that promote efficiency, productivity, and effectiveness (Morgan and Hunt, 1994). Interestingly, there has been limited research on how trust and commitment impact IJV performance. Given the large number of IJVs established in China, research into this area is important. This study aims to 'fill the gap' in this area by establishing how IMP constructs (independent variables) impact the dependent variable – joint venture performance.

The second part of the literature chapter discusses the important business and cultural factors Western firms need to consider before doing business in China. Each manager needs to take into account cultural differences. In particular, they need to pay special attention to the importance to the Chinese concept of '*Guanxi*' in order to maintain, and build effective relationships. Other Chinese cultural values will also be discussed. These include – *mianzi* (face), *renqing* (favour-for-a-favour) and *xinyong* (trust). The second half of the chapter focuses on the management and environmental issues facing Western firms entering China. In particular the impact of political factors and China's recent accession to the WTO. Evidence suggests WTO entry may be having an impact on existing and potential IJV formation. In recent years, the wholly foreign owned enterprise (WFOE) has exceeded the joint venture as the favoured mode of market entry. These have been set up to avoid complicated management issues, but they, to, have limitations.

WFOEs have difficulties winning contracts and forging alliances. China's local governments have routinely favoured state owned enterprises over foreign ventures, especially since 1999, when the industrial ministries in Beijing were abolished (Vanhonacker, 2000).

The chapter following the literature review goes onto explain the research design of the

study. An important aspect of this research is that it employs a range of data collection methods and examines a number of different variables as determining factors of performance. Hu and Chen (1996) stress the importance of incorporating a range of variables, and of using survey and interview data since this allows a better understanding of relationships between variables. The qualitative and quantitative research is largely based around semi-structured interviews and an e-mail questionnaire. The approaches used are fully described within the chapter, along with the cultural implications and how these were addressed. Recognising cultural differences is very important when conducting cross-cultural research. Failure to do so may severely affect reliability and validity of the findings.

Chapter five analyses the empirical findings from the research. These are presented using a range of qualitative and quantitative techniques. For example, qualitative findings are analysed using a wide range of quotations from respondents and content analysis. Not only do these address the objectives set, but provide an interesting insight into interviewee's opinions that go beyond 'tick box' responses found in a quantitative study. Quantitative data is discussed in conjunction with a range of statistical methods. These include finding the mean for key constructs, ranking data, frequency tables, and correlation analysis. The quantitative findings build on those from the qualitative study. Reference is also made to how the findings compare to existing papers based on FDI in China. For example, Glaister (1995); Buckley and Casson (1998); Yan and Gray (1994); Geringer and Herbert (1991) and Luo (1997, 1999) have been identified as key authors in the field.

The final chapter discusses how the findings from this study 'fill a gap' within the existing IMP and FDI literature. The research findings are also important from a practical perspective. They provide a useful insight into management implications for IJVs currently operating in China, and those Western companies considering market entry. Next, limitations of the study are highlighted. This study raises a number of caveats. An obvious example is the research is based on Western parent companies, largely focusing on UK firms. For a foreign researcher it is very difficult to gain access to Chinese companies.

Attempting to conduct interviews is especially difficult. In spite of the open door policy and decentralization, the Chinese system still consists of huge bureaucracies where they're seemed to be a strong tendency to avoid being interviewed by a foreigner. Therefore, like the majority of Western studies into IJVs, the main focus is on the foreign parent. However, this research adds to the existing literature by examining Western companies and considers the cultural aspect of the relationship. Cross-cultural research has a number of limitations, simply because of the complexity of the study. In the case of China, an obvious limitation is one of time. Because the country is going through a period of rapid change, a longitudinal study may produce a different set of findings.

Finally, a discussion is based on possible areas of future research. These include research into relationship performance and the number of IJV partners, as well as a comparative analysis of entry modes and IJV performance. Recommendations are made for the benefit of researchers in the field in order to take the research a stage further.

1.5 Framework

Identifying key success factors for joint ventures in China is a typical multi-attributes multi-criteria problem (Yang and Lee, 2002). This study recognises that a number of attributes may impact IJV performance by drawing on three theoretical perspectives - Chinese Cultural Values, IMP and FDI.

First, cultural values appear to be one of the leading factors likely to impact IJV performance. According to O'Keefe and O'Keefe (1997, p. 7) "Since the Westerners are seeking business ventures in China, they are the guests. It is to their advantage to become more sensitised to cultural history and the practices of their Chinese counterparts." The advantage that greater sensitivity and willingness to adapt to Chinese culture may bring is a closer working relationship between IJV partners. Undoubtedly many western organisations have limited knowledge on the complexities of Chinese culture; therefore

this study provides a useful insight into Chinese cultural values and their impact on the IJV relationship.

Second, the majority of research conducted by IMP has tended to focus on buyer – seller relationships in a business-to-business context. This research contributes to the existing IMP literature by analysing relationships in relation to IJVs. The IMP constructs of trust, commitment, satisfaction and co-operation will be discussed in relation to IJV performance along with the various exchange episodes.

Finally, this study draws on secondary research into FDI in China. The main theme within this body of literature is IJV performance, obviously a key aspect of this particular research.

Figure 1.1 shows the three theoretical perspectives adopted for this study. IMP is closely linked with buyer-seller relationships; Chinese cultural values tend to be explored on the basis of a social and business context, while IJV performance is the main research area in FDI literature. A star in each box alongside PhD thesis indicates that this research draws on, as well as contributes, to all three bodies of literature.

Figure 1.1 Framework for this study

	IMP Group	Chinese cultural values	FDI
Buyer-seller relationships	★		
Business / Social context		★	
IJV performance			★
PhD thesis	★	★	★

1.6 Usefulness of the study

This study fills a gap that provides a worthwhile contribution to both practical and theoretical application:

Contribution to management practice and policy

- It will give existing Western and Chinese companies a better understanding of the factors that impact joint venture performance.

- It will provide answers to the necessary measures needed to build/manage those relationships.
- It can be used as a benchmark to those Western companies considering entering the Chinese market.
- The UK is Europe's largest foreign investor in China; foreign investment is likely to grow rapidly given China's recent entry into the WTO.
- This is important for firms who currently have an IJV and those firms, which are considering FDI in China.

Contribution to academic knowledge

- It contributes to academic theory by testing relationship theory and the *guanxi* base to Western-Chinese companies in a joint venture relationship. Previous research has concentrated on buyer-seller relationships, using Western models.
- There is little research on Western-Chinese company relationships due to difficulty in accessing information.
- It highlights the impact cultural values may have on Western/Chinese IJV performance.
- It fills a void in the literature by primarily focusing on UK/Chinese IJV performance.
- The majority of previous studies focus on U.S. companies that predominantly fall under the heading of 'Western'.
- It provides an insight into the wider range of market entry options in China, especially the growing demand for WFOEs.
- There is currently very little comparative research between WFOE and IJV in terms of market entry methods.

Diagram 1.1 Thesis Structure

Ch 1 – INTRODUCTION

PART I: SURVEY OF LITERATURE

Ch 2 – Development of relationship research	Ch 3 – Doing Business with China
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PART II: RESEARCH METHODOLOGY

Ch 4 – Research design, Qualitative study, Quantitative study, Secondary analysis, Reliability and validity, Cross-cultural research, Internal measurement issues, Data analysis plan

PART III: RESULTS AND ANALYSIS

Ch 5 – Nature of the industry, Strategic objectives, Means of first contact, IMP constructs, exchange episodes and performance, Relationship values and performance, Chinese cultural values and performance
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PART IV: SIGNIFICANCE OF FINDINGS

Ch 6 – Conclusion and recommendations, Limitations of the study, Future research
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CHAPTER TWO: DEVELOPMENT OF RELATIONSHIP RESEARCH

2.1 Introduction

This chapter discusses the development of research into relationships, interaction and networks. There is a huge body of literature and theories used to describe relationships. Understanding relationships and their importance is of great significance in Chinese culture, and has resulted in a growing Western literature on the subject (Vanhonacker, 1997; Strange, 1998; Child, 2000; Stuttard, 2000). First, a brief overview of the IMP Group's key empirical findings illustrates the work of IMP and how it links to this study. Second, relationships will be discussed. There are many definitions of relationship. It must be emphasised that this study focuses on inter-organisational rather than inter-personal relationships. Third, interaction and networks will be examined, in particular work conducted by the IMP group. Finally, FDI relationships and the key constructs commitment, trust, and cooperation will be considered.

2.2 The IMP Group and Inter-organisational Relationships

Background to the IMP Group has already been discussed in the introductory chapter. However, before discussing inter-organisational relationships it is important to provide a clearer insight into the research undertaken by IMP members. Håkansson and Snehota (2000,p.75&79) provide an excellent illustration of what they refer to as 'major cornerstones' that come from empirical findings, these are concepts shared by most IMP researchers:

1. *'Between buyers and sellers exist relationships.* These are built from interaction processes in which technical, social, and economic issues are dealt with. Relationships are organised patterns of interaction and interdependence with their own substance. They are important phenomenon in the business landscape and

have to be recognised and handled by management both as problems in themselves and as marketing or purchasing means. They are as often problems as they are solutions'

2. *'Business relationships are connected.* That makes them elements of a wider economic organisation that takes a network form. Companies are embedded in multi-dimensional ways into their counterparts. This embeddedness affects companies' discretion in contradictory ways. First, it provides serious limitations; any company can only pursue things that are accepted by a number of its counterparts. However, it also offers a company the opportunity to influence its counterparts, and that can be done in a number of dimensions both directly and indirectly'

The above 'cornerstones' will be discussed in greater detail under the headings of 'interaction' and 'network' approach later in this chapter.

Before comparing the concept of relationships between the IMP and Chinese Management perspectives, it is important to define the term 'relationship.' The Oxford English Dictionary of English (1989) defines relationship as 'the way in which two people, groups or countries behave towards each other or deal with each other.' This would suggest that relationships could be viewed at the individual and organisational level. Much of the interaction and networks approach literature focuses on the relationship between two firms. Håkansson and Snehota (1995) define relationship as 'a mutually orientated interaction between two reciprocally committed parties.' Ford *et al.* (1998) describes relationships and networks as 'existing at multiple levels within industrial markets.' The first of these levels is the individual level, for example participation between work colleagues. Second, at the functional level within an organisation, for example the relationship between marketing and finance. Finally, at the business unit level, where the actors are firms engaged in working relationships, such as a buyer and supplier.

Relationships, networks, exchange and trust are important elements of both concepts. However, it has been noted by Buttery and Leung (1998) that the main difference between the two perspectives is that the Chinese view relationships (*guanxi*), and networks (*guanxiwang*) at the personal level as well as being essential for effective business negotiation. Buttery and Leung (1998, p. 8) observed, 'Two streams of research which are currently emphasising relationships rather than transactions are the Nordic School which looks at marketing from a service perspective and the IMP Group influenced by Håkansson (1982) which takes a network and interaction approach to understanding industrial businesses. The emphasis on relationships is likely to lead proponents of these schools to move more towards Eastern methods of negotiation and on empathy with concepts like *guanxi*'.

Certainly IMP researchers (Kriz, *et al.* 1999; Fang and Kriz, 2000) have now recognised the importance of culture. Also, the IMP Group (Kriz *et al.* 1999; Fang and Kriz; 2000; Purchase and Kris; 2000) have distinguished between Western and Chinese firms as Organisational (Western) and Personal (Chinese). However, UK firms also place strong emphasis on personal links (Burchell and Wilkinson 1996). Concepts such as networks and business relationships are certainly affected by culture, but dichotomizing these as either Chinese or Western does not take into account other influences e.g. type and size of the firm, sub-culture and ethnocentric or polycentric approaches to international markets.

Marketers now recognise the importance of relationships. In recent years there has been a shift from a transaction-based approach to relationship marketing. Evert Gummesson (1985) extended the notion of the 4P's into the 30R's and argued that marketing had shifted from McCarthy's (1964) four P classification of marketing mix components. Gummesson's 30Rs are split up into four main areas. The first two involve market relationships, which are:

Classic market relationship (R1-R3) this involves the relationship between the supplier, customer and competitors.

Special market relationships (R4-R17) this area concentrates on relationships such as the customer as a member of a loyalty programme.

The other two types are non-market relationships:

Mega relationship (R18-R23) not all relationships are made by organisations. Government, legislation, external influences and others can have a big impact on customer relationships and determine whether or not they will buy your product. The media also have a big influence in that they determine whether or not customers buy certain products.

Nano relationship (R24-R30) this section involves relationships between internal customers and between internal markets.

Gummeson argued that marketing is more centered on customers and is becoming less mass marketed and less manipulative. Relationship Marketing contends that marketing over the last 20 years has significantly changed to become more relationship, network and interaction focused.

Relationship marketing is viewed as an interactive process in a social context where relationship building is a vital concern (Yau *et al.* 2000). Shani and Chalasani (1992, p. 44) define it as 'an integrated effort to identify, maintain and build up a network with individual consumers and to continuously strengthen the network for the mutual benefit of both sides, through interactive, individualised and value-added contacts over a long period of time.' Berry (1983) refers to it as 'attracting, maintaining and enhancing customer relationships.' It is an essential part of developing and maintaining successful relational exchanges in both business and consumer marketing. The main justification for relationship marketing comes from the need to retain customers. Grönroos (1990) states that it requires a mutual exchange and fulfillment of promises. Evans *et al.* (2004, p. 210), noted that the key elements of relationships marketing include:

- (1) The purpose is to satisfy the objectives and enhance the experience of parties involved;
- (2) the focus is on key customers and other parties;
- (3) the process involves the

identification, specification, initiation, maintenance and dissolution of relationships; (4) the key elements include mutual exchange, fulfillment of promise and adherence to relationship norms'. It is important to retain customers as loyal customers are seen to be more profitable in the long run than new customers are. These key elements can equally apply to business marketing (B2B) and consumer marketing (B2C). For example, 'key customers' can apply to a consumer or business context.

Although relationship marketing is a Western phenomenon, many of the important attributes highlighted are appropriate in Chinese culture. For Western marketers who want to develop a market in China, it is advisable to understand similarities and differences between modern Western theories of relationship marketing and ancient Chinese practices (Yau *et al.* 2000). A number of researchers have compared the Western concept of relationship marketing with the Chinese concept of *guanxi* (Arias, 1998; Yau *et al.* 2000; Wong and Leung, 2001). They argue that there are two key differences between the two approaches. First, relationship marketing is at the organizational level. It is a company-based approach to maintaining and developing customers. *Guanxi* is regarded as personal relationships between individuals. Second, relationship marketing is concerned with management of a business; where-as *guanxi* can have a serious effect on a business if someone leaves. 'Good' *guanxi* may have been built over a long period of time, meaning if someone with extensive *guanxi* were to leave a business, this may have negative implications.

Yau *et al.* (2000) suggest companies entering the Chinese market should consider developing relationship marketing as an investment, just like building a bridge before crossing a river. However, in order for a foreign firm to do this it needs to have an understanding of the cultural differences that exist with China. In particular emphasis on personal relationships at the social and business level.

The concept of relationship marketing does have its critics. For example, Rosen and Surprenant (1998) state that relationship marketing research has the following shortcomings:

- Tends to focus on the antecedents or characteristics of customer relationships and little research on the consequences of forming relationships and the processes through which relationships change.
- Research that does exist tends to focus on satisfaction or quality as the principal measure of relationship outcome.
- Paucity of information on relationship consequences leaves the field with an incomplete model of relationship marketing.

The authors go on to suggest the need to identify the variables that can be used to assess the success of a relationship. This is something that will certainly be addressed in this study. It is hoped key variables such as trust, commitment and Chinese cultural values will provide a key indication to the extent they impact IJV performance.

Despite the merits of adopting relationship marketing, many firms still treat marketing as a 'transaction' orientated approach. Bruhn (2003) compares the distinctive features of transactional marketing versus those of relationship marketing:

- Assessment horizon – transactional marketing is short-term in character, while relationship marketing is primarily long-term orientated
- Purpose of marketing activities – the seller's products and services are at the focal point of transaction marketing measures, whereas relationship-marketing actions relate to both the outcome and the customer.
- Key concepts – transactional marketing relates to the 4Ps, segmentation and branding. While relationship marketing key concepts are interaction, relationships and networks.

- Marketing goals – transaction marketing aimed at solely acquiring new customers, relationship marketing also concerned with retention and recovery.
- Marketing strategy – transactional marketing involves presenting the product. Relationship marketing aims to achieve a dialogue with the customer in order to align the seller's products and services with specific customer needs.
- Promotional strategy – transaction marketing uses non-personal advertising, relationship marketing is characterized through personal interaction.
- Profit and control ratios – under relationship marketing customer-specific indicators such as the customer profit contribution or the customer value enhance classic economic profit and control ratios.

The above points are very much linked to a 'Western' approach to relationship marketing. For example, on a number of occasions Bruhn refers to 'the customer'. This is a clear indication that relationship marketing in the Western sense is linked to business relationships. Again, Chinese business relationships often require personal/social relationships to be established first, before business relationships can follow.

Christopher *et al.* (2002) p.80 take a markets orientated view of relationship marketing. They argue that 'the mainstream marketing literature has neglected the important issue of understanding and building long-term relationships with both customers and other stakeholder groups.' They illustrate the following key stakeholder markets where companies need to review their performance:

- Internal markets
- Referral markets
- Influence markets
- Recruitment markets
- Supplier/Alliance markets
- Customer markets

Christopher *et al.* (2002) argue that these markets are interdependent and must therefore be integrated to increase overall company performance and to deliver the best possible offers to the customer market. This certainly goes beyond the earlier view expressed by Bruhn (2003), in that it addresses the importance of relationships with all stakeholders, not only customers.

A number of authors have gone beyond the parties involved in a relationship, in order to focus on key criteria that help maintain it over the long-term. Möller and Wilson (1995) suggest that the glue that holds a relationship together and allows it to develop is the constructs. Two of the most important constructs of relationships are co-operation and trust. This is echoed by Yan and Gray (1994), who refer to interpartner relationships as the quality of co-operation and trust between the partners while co-managing the joint venture. In this study, these two constructs are included and will be examined to discover their impact on joint venture performance, along with satisfaction and commitment. As with much of the IMP research into interactions and networks, this study is based on inter-organisational relationships.

2.3 The Interaction Approach

The interaction approach developed by the IMP Group (Turnbull and Cunningham, 1981; Håkansson, 1982) recognised that both suppliers and buying firms are often involved in close, long-term relationships within which episodes of exchange determine the nature of the relationships through adaptation. The interaction paradigm moves away from previous research into business markets in that it takes the relationship as the unit of analysis rather than the individual transaction. The approach focuses on the interactions that take place between two actors, these actors can be individuals or companies, and are involved in exchange episodes.

Möller and Wilson (1995) suggest buyer-seller interaction can be described through three basic processes: exchange, adaptation, and coordination. The exchange process can be

further divided into exchange of resources and social resources exchange. An episode can be a social, financial, product or informational exchange (Håkansson, 1982). The interaction approach has resulted in a series of studies demonstrating the importance of business relationships (Turnbull and Cunningham, 1981; Håkansson, 1982; Turnbull and Valla, 1986). Research undertaken includes finding appropriate variables (*see below*) to describe relationships; how relationships evolve over time; the atmosphere within which interaction takes place; and the bonding, which occurs between companies. The relationship is itself seen as a dynamic process that is partially determined by the environment in which the parties operate and also by the atmosphere of the relationship.

Extended list of relationship variables that have been used with success in modelling different relationship situations. Adapted from Han and Wilson (1993):

Commitment

Trust

Co-operation

Mutual goals

Adaptation

Social bonds

Satisfaction

Performance satisfaction

Shared technology

Dwyer *et al.* (1987) suggests that a relationship does not necessarily refer to the individual level, by describing it as 'the total relationship between companies as being made up of interactions, in the form of exchange episodes'. Thus, social, informational, product or financial exchanges contribute to the total relationship. The interaction concept of social exchange has an important function in reducing uncertainties between the two parties (Håkansson and Ostberg, 1975). The Chinese societal concept follows this view, although social relationships are very much linked to business. As part of exchange in Chinese

business practice, it is also common practice to exchange gifts from your hometown or country with new business partners. *Guanxi* relationships are not solely commercial, but also social, involving the exchange of social or humanised obligation *renqing*, and the giving of 'face' in society, or social status (Luo and Chen, 1997).

However, the interaction approach does not take into account the impact of culture on the relationship. Understanding cultural differences is an important success factor in business relationships. For example, the negotiation process between companies with two diverse cultures such as the West and China can easily collapse through misunderstanding. Particular differences include body language and relationship building. This lack of knowledge of cultural values can easily lead to conflict between IJV partners. Compatibility between partners is the most important factor in the endurance of a global alliance. Differences between national cultures, if not understood, can lead to poor communication, mutual distrust and the end of the venture (Lane and Beamish, 1990). For this study, interaction constructs, exchange episodes and Chinese cultural values will be measured to determine their impact on IJV performance.

2.4 The Network Approach

Before discussing networks, and conceptual equivalence between the IMP and Chinese management perspectives, it is worth examining some of the many definitions for the term 'network'.

Thorelli (1986) refers to networks as 'two or more organisations involved in long-term relationships'. Möller and Wilson (1995) list ten different theories of networking. The industrial approach, adopted by the IMP Group is one of these.

The IMP approach to analysing business network's focuses on the actors-activities-resources (AAR) model (Araujo and Easton 1996). The AAR model describes a business relationship as consisting of three substance layers: activity links, actor bonds and resource

ties (Håkansson and Snehota 1995). Actor bonds connect actors and influence how the two actors perceive each other, activity links concern technical, administrative and commercial and other activities of a company that can be connected in some way. Finally, resource ties connect resource elements of two companies (Ford, 1997).

The industrial network approach portrays industrial markets as networks of relationships between firms (Johanson and Mattson, 1986). An industrial network is thus a web of relationships where one actor is connected to others through exchange relationships. These relationships may have different values, depending on the connections between resources, the complementarities of activity structures and the bonds established between individual actors. A change in one of these relationships may have important repercussions on other relationships. In the industrial network approach, relationships are one form of economic co-ordination and are often long-term, rather than based on a short period of time. This long-term interaction is likely to lead to trust and commitment. However, like the interaction approach, the network model fails to recognise the importance of culture in business relationships.

Research conducted by Kriz *et al.* (1999) and Purchase and Kriz (2000) compared the concept of business networks between the West and China. They describe the Western network perspective as focusing on networks at the firm level, whereas Chinese business networks operate on two levels: firm and individual. The authors went on to adapt the AAR model to include individual as well as organisational actors. Individual networks (*guanxiwang*) are an essential ingredient of Chinese business. Unlike networks in the interaction and networks perspective, Chinese networks are largely based on family ties. These networks are also built on business-to-business relationships. So called 'networks' in Chinese business practice are at the individual, rather than focusing on the organisational level. In China they substitute for the laws and legal systems of the West. Instead of signing a contract – a mere piece of paper – time, effort and money are used building up and earning trust (Waters, 1991). However, are these personal networks exclusive to Chinese business? Do business networks in Western culture relate largely to

the firm? According to Swierczek (1994) the Chinese style of management involves *guanxi*, family like links that are used by small firms and linked together in networks. The traditional concept of Western networking is at the individual level (or establishing connections within a business context). This is sometimes compared to the Chinese concept of '*guanxi*'. However, Luo and Chen (1997), suggest there are some key differences between the two concepts:

'Guanxi primarily relates to personal, not to corporate, relations, and exchanges that take place amongst members of the guanxi network are not solely commercial, but also social, involving the exchange of renqing (social or humanised obligation) and the giving of mianzi (face in the society), or social status. This feature often leads guanxi to be named 'social capital'. In contrast, networking in Western marketing and management literature is the term primarily associated with commercially based corporate-to-corporate relations'

There are however other types of networks that have been distinguished in Western business. For example, the 'old boy network', which combines social and corporate relations. This is a system by which men, who went to the same school, use their influence to help each other, especially in their work; all through their adult lives. O'Neal and Thomas (1995) in their study of director networks found that most had been offered board seats through networking. The origin of these networks was varied and included social contacts, school ties and family ties.

In this study, interactions will be analysed from the Western parent company perspective, rather than looking at business networks. There are two reasons for this. First, it is important to understand how Western-Chinese firms interact before looking at wider networks. Second, analysing Western-Chinese joint venture networks is an extremely difficult task. This is largely due to the fact the government plays a significant role within the network. Although China's reforms have accelerated at a rapid pace in recent years, the government still plays a highly active role both in business and in Chinese people's

lives. This is to such an extent that it would be hard to imagine for many Westerners. As a result of this, unless the researcher has excellent connections (*guanxi*), it is very difficult to research Western-Chinese joint venture networks. Even then, access to accurate data and legal restrictions make it a real challenge for any researcher.

2.5 Foreign Direct Investment (FDI) Relationships

Houdard (1998) states the importance of relationships between joint venture partners by using the following case example 'The Managing Director of Shenzhen's Caltex Langton, a 60:40 joint venture in the retail petrol sector between Caltex of the U.S. and Langton of Hong Kong, maintains that he spends 70% of his time – not including evenings and weekends cultivating relationships.' There has been much written on the importance of relationships between Western and Chinese joint venture partners (Davidson, 1987; Aiello, 1991; Glaister and Wang, 1993; Child and Lu, 1996 and Tsang, 1998).

A number of researchers have highlighted successful interpartner relationships as going beyond fulfilling the terms of the contract. Harrigan (1986) states that 'Alliances fail because operating managers do not make them work, not because contracts are poorly written.' According to Möller and Wilson (1995), 'a strategic alliance or partnership may be defined as a relationship where a synergistic combination of individual and mutual goals encourages the partners to invest time, effort, and resources to create a long-term collaborative effort that achieves individual and partnership strategic advantage.'

In comparing the conceptual equivalence of 'relationships' between the two perspectives, it is evident that 'relationships' based on the interaction and networks approach relates largely to the organisational level, i.e. relationships between organisations. As previously highlighted, the Chinese view relationships as combining both a social and business context, very often it is essential to build social ties, before going onto establish a working business relationship. The emphasis on relationships is a result of China being a collectivist society, lacking legislation. These business relationships are largely built on

trust, which will be discussed later in this paper. However, business relationships are not always associated with the organisational level in Western culture. Research into trust, business relationships and the contractual environment among UK, German and Italian firms by Burchell and Wilkinson (1996) found UK firms consider personal links an essential part of business relations.

Some researchers view relationships as following a series of stages. Scanzoni (1979) suggests relationships evolve through five general phases – 1) awareness, 2) exploration, 3) expansion, 4) commitment, and 5) dissolution. However, evidence suggests that not all relationships end in dissolution. This can certainly be said of many Japanese firms and their relationships with their suppliers. The same suppliers may be used for generations. Ford *et al.* (1998) also view relationships in business marketing as consisting of a stage process – 1) pre-relationship, 2) exploratory, 3) developing, 4) stable stage. The authors liken the *pre-relationships* stage to inertia. That is to say that a business or consumer ‘knows what they are getting’ and are unlikely to change. This situation is unlikely to occur for a foreign company seeking to establish a relationship with a Chinese partner. The reason is that many foreign firms do not have a pre-existing relationship. However, this stage will certainly involve extensive research on the part of both parties. Perhaps the most important question that needs to be answered at this stage is ‘What can our prospective partner do for us?’ Ford explains *exploratory* as consisting of negotiation and serious discussions with a view to developing commitment. These are certainly important factors in the relationship process, however; arguably this stage is more complex when dealing in an international context i.e. Western and Chinese negotiations. Cultural understanding and a willingness to adapt, as well as taking a patient approach have been cited by researchers as essential qualities when dealing with the Chinese. Intensive mutual learning, increased commitment, and possible acceptance of adaptations characterizes *developing*. Demonstrating commitment is essential for an IJV. Different cultural backgrounds may make it more problematic. For example, a Chinese firm may wish to learn foreign companies’ latest technologies. The foreign firm is unlikely to share this information over the short-term, as trust and commitment to the relationship needs to be developed. Finally,

stability refers to companies that have reached certain stability in their learning about each other. IJVs may experience problems with over stability. For example, if one partner becomes over-dependant on the other, it may find that dissolution is likely to occur. The reason being an IJV only functions if each partner feels they are 'gaining something' from their partner.

Certain aspects of the stages models can be applied to the development process of Western-Chinese IJVs e.g. negotiation, trust and commitment building, adaptation etc. However, these models are rather 'generic' in nature in that they do not take into account cultural factors. Culture could be linked to every stage of the relationship process. It is a key element in determining the extent to which a Western-Chinese IJV is successful.

For this study, FDI relationships analysed will be in the form of both equity and cooperative joint ventures (EJV/CJV). How Western parent firms in the joint venture interact, together with the possible effect of IMP constructs and Chinese cultural values on performance will be discussed. There is strong evidence to suggest that those parent firms that are compatible in practicing the constructs of trust, commitment, cooperation and satisfaction, together with adapting to Chinese cultural values and following shared strategic objectives will show good performance. Similarly, Chinese parent firms also need to have a willingness to adapt to Western culture. This may involve adopting a Western working structure of management or staff appraisal system. Therefore, IMP constructs and Chinese values maybe important antecedents of joint venture success. This is echoed by Kanter (1988) who argues that compatibility in and an ability to adapt to each other's cultures, management practices, and procedures are likely to lessen the probability of failure. For example, Chinese firms may find it difficult to understand Western management processes, in particular delegation of tasks and decision-making. The reason for this is many Chinese state owned enterprise employees rely on managers to make every day decisions and do not question this decision-making.

Value is considered to be an important constituent of relationship marketing. According to Wilson and Jantrania (1994, p.63) it can be referred to as 'a problematic concept, which cannot be ignored'. These researchers have studied how value could be measured in relationship development. They conclude that an assessment of relationship value should begin with the economic value, proceed to strategic value and finally estimate qualitatively the value of behavioural elements. IMP researchers Walter *et al.* (2000) define customer relationship value as 'the trade off between the multiple benefits and sacrifices perceived by a customer, regarding all aspects of the business relationship with a supplier'. Although each of the above-mentioned studies is based on business markets, they do not address relationship value in a joint venture context.

Measuring relationship values in IJVs maybe based on the ability of parent firms to overcome disagreement. Given this study is largely based on the Western parent perspective, managers will be asked how they value the relationship with their Chinese partner. A company that considers a relationship to be one of high value to the firm is more likely to make sure that the relationship works. To foreign companies, what determines high relationship value with their Chinese partner is likely to be the 'possible rewards.' For example, if investing in China is a small extension of existing operations, relationship value may be low. However, if a firm is aiming to be a 'first mover' in China, the possible rewards may be perceived as being vital to future growth. Very often relationship value may be down to 'what can you do for us?' If a Western parent company believes the benefits of being in an IJV are becoming less overtime, their perceived relationship value is also likely to reduce.

A good example of a foreign company that regards its relationship with its Chinese partner as one of high value is Volkswagen. The German car manufacturer has invested millions of Euros into its China operations. This has helped it capture a 50% market share of the Chinese automobile market. The company has recently promised to make further investments, in order to maintain its position as the country's leading foreign car producer.

2.5.1 Trust

Trust is probably the most common construct in relationship models and has been a key feature in work conducted by the IMP Group. IMP researchers Håkansson and Snehota (2000,p.77) recognise trust as 'built up over time in a social exchange process whereby the parties learn, step by step, to trust each other'. However, given trust is a popular topic for researchers, it has resulted in a large number of different definitions (*see table 2.1*), and the definition used will have an effect on the measurement of the construct. It has been widely used by researchers of the IMP Group, and is seen as a social exchange context between individuals and between organisations (Möller and Wilson 1995). Trust has been identified as an important issue in partnerships and alliances (Parkhe 1993).

Moorman *et al.* (1993) define trust as a willingness to rely on an exchange partner in whom one has confidence. Fukuyama (1995) defines trust as 'the expectation that arises within a community of regular, honest and co-operative behaviour, based on commonly shared norms, on the part of other members of that community.' The conceptualisation of trust, indicators of trustworthiness and the relative importance of social relationships are not universal, but vary between Western, Japanese and Chinese culture. There is already a comprehensive literature on trust in Western culture that shows how Western capitalist market systems are based on legal contracts and ownership rights rather than long-term personalised trust relationships (Child, 1998). The Japanese word for trust is '*shin-yo*' meaning literally: sincere business, it is based on a compound of *shin*, a character for sincerity and '*yo*' which means literally 'something to do, a business' (Sakade, 1982). The English concept of trust is the reliance on and confidence in the truth, worth and reliability of a person or thing (Usunier, 2000).

Development of a trustworthy partnership has been argued to be the most effective way of prolonging a business relationship. Research has shown that the Chinese tend to place great emphasis on developing relationships built on trust. They appear to be quite

suspicious and cold towards strangers with whom relationships have not been established (Yau, 1988).

Trust in the Chinese culture has been described by Fukuyama (1995) as 'in-group' trust at the personal level, whereas trust in Western culture is 'system trust' built up at the organisational level (impersonal). This systems trust is tied to formal, societal structures, which have an existence separate from the material preferences, motivation and actions of individuals. What underlines systems trust in many respects is the contract. Companies may refer to a relationship with their partner as a 'trusting' relationship in the knowledge that if anything should go wrong, they can always rely on the contract to fall back on. Systems trust in Western society has been severely tested in recent months in light of the well-published events surrounding the collapse of Enron and WorldCom. Many investors and customers are asking the question 'who can we trust?' WorldCom in particular was a major shock to many in the U.S. As one of America's largest companies, it filed the largest lawsuit in American history.

Table 2.1: Comparing definitions of trust in inter-firm relationships.

Author(s)	Definition	Type of relationship
Anderson and Weitz (1989)	'One party's belief that its needs will be fulfilled in the future by actions undertaken by the other party'	Sales agencies and manufacturers in the electronic components sector
Aulakh et al. (1996)	'Degree of confidence the individual partners have on the reliability and integrity of each other'	Inter-organizational relationships
Chow and Holden (1997)	'The level of expectation or degree of certainty in the reliability and truth/honesty of a person or thing'	Buyer-seller in the circuit board industry
Doney and Cannon (1997)	'Perceived credibility and benevolence of a target of trust'	Buyer-seller in manufacturing
Ganeson (1994)	'Trust is the willingness to rely on an exchange partner to whom has confidence'	Retail buyers and vendors from department store chains
Morgan and Hunt (1994)	'Trust exists when one party has confidence in an exchange partner's reliability and integrity'	Relationships between automobile tyre retailers and their suppliers
Sako and Helper (1998)	'An expectation held by an agent that its trading partner will behave in a mutually acceptable manner'	Supplier-manufacturer relationships in auto industry

Source: Adapted from Raimondo, M (2000)

Kumar *et al.* (1995) argues that trust is a multi-dimensional construct and that two dimensions are trust in *credibility* and trust in *benevolence*. Sako (1992) discussed three different dimensions of trust in interfirm relationships: *contractual based trust*, *competence based trust* and *good will based trust*. Contractual based trust refers to the expectation a partner will carry out a task as it is underwritten by the contract. In other

words, if a company were to comment 'we trust our partner to deliver on time.' It is in the knowledge that they have an obligation to do so under the terms of the agreement. Failure to fulfil their responsibility under these terms, may lead to the partner referring to the contract or possibly taking legal action. As mentioned, this type of trust is very much linked to Western business. Chinese firms tend to view trust at a personal level rather than linked to a contract. Competence based trusts refers to an expectation that a company will perform its role competently. For example, in the case of an IJV car manufacturer, expectation on behalf of the foreign firm that their Chinese partner will produce motor vehicles adhering to safety regulations. The third dimension, goodwill-trust is explained by Sako as follows: 'The key to understanding goodwill trust is that there are no explicit promises which are expected to be fulfilled, as in the case of contractual based trust, nor fixed professional standards to be reached, as in the case of competence based trust.' A possible illustration of this is a foreign partner showing commitment to an IJV by increasing its investment in the project.

Trust is an important factor in establishing relationships (Grönroos, 1990). It has been identified as a key construct in relationship marketing, and has also shown to lead to cooperation (Morgan and Hunt, 1994). A number of authors have looked at trust between different types of partners. Ganesan (1994) used components of trust based on credibility and benevolence in a study of retail buyers and vendors from department store chains. Ganesan defines trust as follows: 'Trust is the willingness to rely on an exchange partner in whom one has confidence.' Sako and Helper (1998) compared trust between supplier and manufacturer organisations within the car industry. They define trust as 'An expectation held by an agent that its trading partner would behave in a mutually acceptable manner'. Measures used for their study were based on Likert Scale questions, and included 'We can depend on our customer to help us in ways not required by our agreement with them' and 'We can depend on our customer always to treat us fairly.'

Trust between Western and Chinese firms probably carries greater importance than trust between purely Western alliances. Gill and Butler (2003) argue that trust is an important

factor in business relationships across national cultures. The authors note the actions that would damage trust vary between national cultures. For British managers trust is likely to be damaged by the failure of the other party to meet its contractual obligations. Chinese managers would be concerned by a lack of goodwill, poor personal relationships and failure to provide practical help and support. The Chinese concept of trust is very much centred on establishing personal trust. Subsequently the issue of the contract carries much less significance in Chinese culture. Cullen *et al.* (2000) suggests trust is important for the following reasons 1) Managers must default to trust since the contract cannot allow for every contingency. It is not feasible to constantly re-write the contract. 2) An alliance of two or more companies creates a strong potential for dysfunctional conflict and mistrust. 3) Trust involves learning, for example, exchanging information on technologies. Therefore, a high level of trust and norms of exchange might be crucial for joint venture success (Beamish, 1987). It is often very difficult to build trust between two companies that originate from very different cultural backgrounds. For example, Cousins and Stanwix (2001) found that the absence of 'goodwill trust' was a difficulty in Japanese inter-firm relationships. In the absence of trust, the UK partner in a Chinese/British IJV may fear that the Chinese partner will act opportunistically, by taking the proprietary technology in the business venture and exploiting it for their own ends.

Currall and Inkpen (2002) define IJV trust as 'the decision to rely on another party (i.e., person, group or firm) under a condition of risk.' They argue that trust can be measured at the person, group and firm levels. By adopting a multilevel approach to trust, methodological rigour can be enforced. The authors criticise studies that base trust at the personal level, then subsequently claim trust exists at the firm level (see Parkhe, 1993). They stress the importance of measuring trust using appropriate methodology. Multi-level trust measures examples are given as follows: 1) trust between persons (IJV managers) can be measured using content analysis of IJV board meeting minutes or actual observation of the meetings. 2) Trust between groups (of IJV managers) can be measured using a group discussion procedure in which members provide a single response as a group to a specific set of questions. 3) Measures used for trust between firms (IJV

partners) can be based on archival data relating to corporate statements, or IJV shareholder agreements.

Trust has been identified as an important factor in determining IJV success. In his study into co-operation and conflict in IJV relationships (Kemp, 1999) describes long-term relationships and trust as ‘encouraging the development of exchange norms, which lead to effective communication, sharing of information and a strong social bond.’ They describe norms of exchange as being based on mutual investment in the relationship and therefore increase the exit barriers. Exchange in this context largely relates to the sharing of information, if Western and Chinese firms express a keen interest to share information on a regular basis, it would appear this leads to increased levels of trust. Kemp and Ghauri (1998) echo this claim by concluding the levels of trust and norms are very important for a successful IJV. Findings suggest high trust and norms leads to better performance of the IJV and lower levels of conflict between IJV partners.

It appears that foreign companies have what can be described as a poor level of pre-conceived trust over their Chinese partner. In their qualitative study into Sino-American joint ventures, Walsh *et al.* (1999) stress the superstition that seems to hang over these relationships. They include the following comments from American IJV senior managers:

‘There’s a lot of mistrust between the Chinese and the foreigners.’

‘I was very trusting in the beginning, I am very cautious now.’

‘People in the United States are trained to have a ‘play fair’ mentality. It is not the same here, it is not uncommon for someone to say, ‘Oh we’re negotiating with your competitor – perhaps we forgot to mention it.’

Although, Currall and Inkpen (2002) acknowledge that decisions at the firm level are made by the corporate board, their proposed measures of trust between firms are

inappropriate when measuring trust between Western and Chinese parent companies. First, the Chinese concept of trust (*xinyong*) is based on personal trust. This cannot be measured using written documents such as shareholder agreements. When measuring trust in China an emic (culture specific) approach needs to be adopted. Corporate statements and shareholder agreements will not contain every detail of a joint venture relationship. The only means of empirical research into trust in China is to adopt the survey and/or interview method of data collection and analysis. Ideally interviews based on a number of parties involved in a joint venture e.g. parent company managers, joint venture general manager, local government should be carried out. This will allow for methodological reliability and validity. Finally, it is unrealistic to measure IJV firm relations using corporate documents in China. Unless one has excellent '*guanxi*', it is near on impossible to access this kind of information. Particularly, for academic researchers. One reason the majority of research conducted into IJV performance is based on small/medium-sized samples is due to difficulties in accessing IJV data.

Boersma *et al.* (2003, p.1033) developed a process model of trust building in IJVs. The authors argue the main problem is 'how can trust be developed between parties within IJV relationships?' They suggest that trust in IJV relationships develops through four different stages:

Previous history – this is the stage before the parties meet to negotiate the joint venture. During this stage one party may construct an initial mental image of the other party with whom they will create the joint venture.

Negotiation – The parties come together in order to negotiate.

Commitment – The will of the parties meet, when they reach an agreement on the obligations and rules for future action in the relationship.

Execution – the commitments and rules of action are carried into effect.

Renegotiations may take place after each period of execution during official board meetings. When one or both parties cannot maintain the commitment; the IJV relationship

will cease to exist. It is at this point that the Boersma *et al.* (2003) stages model fails to stress the consequences in relation to trust as a result of IJV dissolution. It is in the interest of both parties to finish an IJV relationship on good terms. If this can be achieved it maybe possible for a high level of trust to remain intact.

For this research project, trust will be used as a key construct to determine the possible effect it may have on IJV performance. Trust will be measured based on benevolence and credibility following similar measures to those used by Ganeson (1994) and Sako and Helper (1998). For the purpose of this study, trust is defined as ‘the willingness to rely on a JV partner and expect it to behave in a mutually acceptable manner.’ This definition is adapted from existing studies on interorganisational trust (Ganesan 1994; Sako and Helper, 1998; and Zaheer *et al.* 1998)

2.5.2 Commitment

This construct has been identified as being closely linked to trust. For example, Håkansson and Snehota (2000,p.77) argue commitment is related to trust but has a specific content ‘a high degree of trust can exist between parties without there being much feeling of commitment. Commitment has to do with priorities and can be built up between parties over time if they have demonstrated that they give each other a certain level of priority’.

Cullen *et al.* (2000) describe trust and commitment as the ‘social fabric’ of the relationship. Anderson and Weitz (1992) suggest commitment in channel relationships is modelled as a function of 1) each party’s perception of the other party’s commitment, 2) self reported and perceived pledges made by each party, and 3) other factors such as communication level, reputation and relationship history. Commitment is an essential ingredient for successful long-term relationships (Walter *et al.* 2000). A number of authors stress long-term commitment as being one of the main reasons for the prolongation of joint ventures (Killing, 1983; Beamish, 1987; Buckley and Casson, 1998) like trust; it has become an important part of relationship marketing research (Morgan and Hunt 1994). It

has been described as a lasting intention to build and maintain a long-term relationship (Dwyer, *et al.* 1987). In their study of the impact satisfaction, trust, and relationship value have on commitment; Walter *et al.* (2000) found these constructs represent the most important aspects of business relationships.

Hu and Chen (1996) conducted one of the largest studies into IJV performance and commitment. The authors analysed 2,442 IJVs from various countries. These included Japan, U.S. and Europe. They argue that performance of Sino-foreign joint ventures is more dependent upon partner-related factors such as partner commitment, and number of partners, than joint venture-or environment related factors such as product/industry characteristics and location of joint ventures. An IJV cannot exist if the parties are not committed to the shared objectives as prescribed in the agreement. A lack of commitment will often lead to an ill-defined set of objectives and lack of overall direction for the organisation. As a result, the whole organisation will suffer (Hu and Chen, 1996). Beamish and Banks (1987) suggest commitment is positively related to the amount of contribution made by each partner – greater contribution leads to higher level of performance.

Gundlach *et al.* (1995) describe commitment as having three different dimensions. These include: *affective* commitment, which describes a positive attitude towards the future existence of the relationship. *Instrumental* commitment is shown whenever some form of investment in the relationship is made. Finally, the *temporal* dimension of commitment indicates that the relationship exists over time. In the case of joint ventures, it may be the case that the longer a joint venture continues to exist, the greater the commitment to the relationship. However, this is perhaps a simplistic measure, since other factors e.g. legal regulations may mean it is difficult to terminate an existing IJV. Also, it may not be high on the agenda for foreign firms in terms of business priority.

Since China's accession to the WTO, many existing Western companies involved in IJVs with Chinese firms now have the option of becoming WFOEs. Those that continue to prefer to stay in a joint venture, indicates their commitment to the relationship.

Consequently, both parties may display their commitment to a relationship simply by continuing with the venture.

In terms of a joint venture, if a partner does not show evidence of 100% commitment to the partnership, this is likely to have a negative effect on the relationship. Committed partners will consider long-term gains rather than short-term advantages. In such cases the frequency and intensity of conflicts can be expected to be relatively lower; and, therefore, higher levels of commitment should positively affect JV performance and partner's satisfaction with JV activities. For this study it is believed commitment is an important antecedent of joint venture performance. The obvious example of commitment between Western and Chinese partners is the intention to maintain a long-term relationship. The majority of Western companies in China have yet to make a profit; they understand they are in it for the long-term. This research includes measures used for commitment that pay particular attention to affective commitment, in other words, positive attitude. The measures used reflect the dimensions proposed by Gundlach *et al.* (1995), in that they provide a more in-depth analysis of the construct.

In their well-known paper 'The Commitment-Trust Theory of Relationship Marketing' Morgan and Hunt (1994) theorise that 'the presence of relationship commitment and trust is central to successful relationship marketing successes instead of failures.' They suggest both commitment and trust are important factors that lead directly to relationship marketing success – not just one or the other. Similarly, for this study, both trust and commitment will be tested to see their potential impact on IJV performance as one and separate constructs.

Scanzoni (1979) argues that commitment contains three measurable criteria: inputs, durability and consistency. *Inputs*: From the IJV perspective, both parties provide a high level of input. Significant economic, communication and/or emotional resources may be exchanged (Dwyer *et al.* 1987). In the case of an IJV, this is likely to include technological expertise, financial knowledge, local/cultural knowledge and access to market. The latter

being provided by the Chinese partner. *Durability*: This should develop over time. Durability presumes the parties can discern the benefits attributable to the exchange relation and anticipate an environment that will abet continued effective exchange (Dwyer *et al.* 1987). The final aspect of commitment is the *consistency* with which the inputs are made to the association (Dwyer *et al.* 1987). If one party's input levels fluctuate, its partner will have difficulty in predicting the outcome of the exchange. In other words, inconsistency equates to low commitment. If one partner is inconsistent with its exchange, undoubtedly its partner is less likely to rely on the outcome of the exchange. Levinger and Snoek (1972) argue social bonds tend to weaken and dissolve unless actively maintained. Certainly when dealing with a Chinese partner, social bonding is an important part of the relationship development process. Failure to maintain regular communication, adapt to cultural differences and actively exchange information with a Chinese firm is not only likely to weaken a relationship, but may also lead to IJV dissolution.

Trust and commitment has been studied in relation to IJVs in other Asian cultures. Cullen *et al.* (2000) explored EJVs and CJVs. These were between Japanese and foreign firms from 11 countries and Japanese firms and U.S. firms respectively. The authors begin by dividing commitment into two areas: *calculative and attitudinal*. The latter relates to a positive/cost analysis for the partner, managers recognising potential for returns. The former means giving extra effort to make the venture work and a willingness to go beyond mere contractual obligations (Cullen *et al.* 2000). A Chinese firm is likely to expect its foreign partner to go beyond the contract, given less emphasis is placed on terms of the agreement. This is largely due to China being a 'relationship' based society that is currently going through a huge restructuring of its legal system. Also, a contract is not going to contain details of every eventuality. Should unforeseen circumstances occur, this calls for cooperation, understanding and a willingness to work together on the part of both IJV partners. Commitment to resolving problems will lead to a hardening of trust over time.

A lack of cultural understanding and adaptability has been cited as a major reason why foreign-Chinese IJV's fail. Cullen *et al.* (2000) proposes multinational managers need to take into account the following when developing trust and commitment in international alliances: *pick a partner with trust in mind.* There must be belief that a trusting relationship can be developed. This may prove difficult if one partner already works with its partner's key competitors. *Seek a level of trust and commitment that is appropriate for your strategic goals for the alliance.* Time is a major issue here. A long-term contract e.g. 10 years plus will require far greater devotion than one on a short-term basis. In the case of IJVs, many foreign firms are in it for the long haul. Twenty-five years plus. One issue facing Western and Chinese relationships is their view of time. Western societies tend to have a monochronic view, while Asian societies see time as being polychronic. Time is fully explained in section 3.4.5. *Understand the behaviours and interactions in the relationship serve as trust or commitment signals to the partner.* This means that managers should attend to the signals that they are sending to partners and that they should look for partner signals and attend to the interpretation (Cullen *et al.* 2000). *Gradually reveal your short and long term goals for the alliance in concert with your partner doing the same.* This recommendation must be challenged in terms of foreign-Chinese IJVs. Many IJVs fail due to differing strategic objectives. This can be overcome by making it clear at the outset the intentions by both parties. Revealing them further down the line is a huge gamble, as varying goals will ultimately lead to conflict, possibly IJV dissolution. *Seek mutually beneficial situations.* For example, relationship fulfilment may be achievement through the achievement of strategic objectives. *Invest in cross-cultural training.* The ability to speak the language, adapt to local cultures, maintain relationships with stakeholders can only reduce the chances of IJV failure. *Invest in direct communication.* Ideally this should be face-to-face. There is no substitute for personal communication, especially in China. Clearly linked to communication is recognising the importance of face. When dealing with the Chinese, it is especially vital for a foreign partner to ensure 'loss of face' is not experienced by the Chinese counterpart.

2.5.3 Co-operation

Researchers have identified co-operation as an important antecedent to joint venture performance (Parkhe, 1993). A salient feature of cooperative relationships is that they evolve over time. Intensive cooperation between two joint venture companies should lead to higher levels of trust. A cooperative relationship implies that employees from the involved parties become acquainted and, if a relationship is maintained and developed, that a highly complex pattern of interaction between the parties evolves. Many things can affect the level of co-operation between partners. For example, a Chinese partner is likely to be very keen on having access to new technologies belonging to their western partner. However, foreign firms may be unwilling to co-operate in providing this information due to a lack of trust in the relationship. Joint venture management requires a blend of co-operative and competitive behaviours, which recognise the JV manager's dilemma. Partners cannot be completely trustful because this makes them too vulnerable, but they cannot be completely untrustworthy because it harms co-operative efforts (Lax and Sebenius, 1986).

Tiessen and Linton's (2000) study on co-operative and competitive behaviour in North American and Japanese joint ventures found that partner compatibility was positively linked with co-operation, which was associated with better joint venture performance. Their findings suggest parent firms similar in terms of management style more readily demonstrated mutual trust and commitment to the venture. It should be noted this study was made on the basis of organisational culture and not national culture. Cultural distance is also likely to have an impact on a joint venture relationship. The implications of this are discussed elsewhere in the study.

Normally in Western society, cooperation, like trust between firms is underwritten by the contract. In other words, if partner A does not fulfil their obligation under the contract, then partner B is in a position to terminate or take legal action. However, as mentioned, in China the contract does not have the same meaning as in Western society. There is far

greater emphasis on relationships, for a Western firm to continuously refer to the contract, would certainly affect the level of trust and cooperation the Chinese firm has towards their partner.

The importance of cooperation is recognised in this study and is analysed in order to identify the possible effect on joint venture performance. The measures used are adapted from Yan and Gray (1994), and based on the following definition of cooperation 'Joint venture partners work together towards the same end, purpose and are flexible in their approach.' This definition will apply to the qualitative analysis. For the questionnaire, respondents will be asked to rank the importance of cooperation alongside other IMP constructs such as trust and commitment.

Commitment and trust are important for achieving co-operation. Based on their Key Mediating Variable (KMV) model of relationship marketing (*see appendix E*), Morgan and Hunt suggest relationship commitment and trust are key constructs. High levels of trust and commitment ultimately lead to co-operation between partners. Commitment and trust are seen as key mediating variables because they encourage the marketer to 1) work toward preserving relationship development, 2) resist attractive short term opportunities, and 3) enable prudent high risk actions because partners will not act opportunistically. 'Commitment and trust lead directly to cooperative behaviour that are conclusive to relationship marketing success (Morgan and Hunt, 1994)'.

2.5.4 Satisfaction

Satisfaction relates to performance of the key elements of the exchange process (Möller and Wilson, 1995). This construct is very important in a buyer-seller relationship. Continuous satisfaction in a relationship is likely to lead to long-term commitment between the two parties. The same principle applies to joint ventures. For example, information exchange between a Western and Chinese parent company may involve sharing ideas on technology. Gaining access to new technologies is widely regarded as a

key factor in Chinese firms establishing joint ventures with Western companies. According to Walter *et al.* (2000), satisfaction is based on past experience with an actor. A measure for satisfaction based on this definition is not appropriate for IJV relationships. Given the short-term duration of many Western-Chinese IJV's, measuring on this basis is likely to provide many instances of problematic situations. This is because developing satisfaction, along with trust and commitment is likely to be a long-term process.

For this research, satisfaction is analysed in order to identify the possible effect on joint venture performance. Parent firm satisfaction may develop over time, being determined by constructs such as trust and achieving profits. Wilson (2000, p.253) defines performance satisfaction as 'the degree to which the business transaction meets the business performance expectations of the partner'. This definition allows for the focus on interaction (elements of the exchange process): product, social, information and financial exchange. Exchange episodes, along with satisfaction will be analysed qualitatively using data from the sample of twenty-five respondents. These elements are difficult to measure using a questionnaire because of their sensitive nature.

The opinion of the relationship will be based on previous interactions between the firms. Satisfaction in this case is largely related to satisfaction with the joint venture partner. It is worth noting that during early stages of an IJV it is very likely both partners may not be wholly satisfied with their relationship as they are still 'finding their feet'. Misunderstanding is likely to occur, particularly as a result of cultural differences. However, if challenges are resolved with a satisfactory outcome, this can only have a positive impact on joint venture performance. Perhaps one way to look at what affects satisfaction is to consider what generates dissatisfaction. This may ultimately lead to dissolution. Examples of dissolution include failure to achieve strategic objectives, poor performance (financial/non-financial) and partner not fulfilling their role in the agreement. However, dissatisfaction can commonly be attributed to 'differences' between parties. These can be 1) cultural differences, 2) national cultural differences, and 3) differences in strategic objectives. Willingness towards adaptation and a common understanding of

objectives, along with trust have been highlighted as key factors in maintaining satisfactory IJV relationships.

It may be possible to measure satisfaction on the basis of the length of time the IJV relationships has been in existence. In other words, a 15-year relationship may indicate satisfaction in that both parties are still together. However, like time and commitment, this perhaps is a rather simplistic view, in that both parties may wish to terminate the agreement, but are unable to do so as a result of legal reasons. Or one or the other may be in the process of seeking a new partner.

2.6 Cultural Analysis

Kroeber and Kluckhohn (1952), after examining several hundred definitions of culture, came to the conclusion that the term describes the ways that people structure and share information.

Given the cultural diversity between the West and China, IMP researchers are recognising the importance of culture (Kriz *et al.* 1999 and Fang and Kriz, 2000). Understanding cultural differences is a way of avoiding conflict between Western and Chinese joint venture partners. Multicultural management, along with exchanging cultural ideas can aid long-term relationships. Cultural exchange has proven to be a key factor in contributing to joint venture success, so that this needs to be included as part of actor bonds of the AAR model. Showing and exchanging cultural ideas increases the chances of joint venture success.

According to Hall (1960) cultures differ widely in the extent to which unspoken, unformulated, and inexplicit rules govern how information is handled and how people interact and relate to each other. In 'high-context' cultures, much of human behaviour is covert or implicit, whereas in 'low-context' cultures much is overt or explicit. Hall describes the West (including US) as 'low-context' and China as 'high-context'

'Characteristics and context of culture'

Low-context cultures:

- Much information contained in coded, explicit, transmitted messages
- Fragile bonds and low involvement between people
- Fewer distinctions made between insiders and outsiders
- Change easy and rapid

High-context cultures:

- Much information implicit in the physical context or internalised within people
- Strong bonds and high involvement between people
- Greater distinctions between insiders and outsiders
- Cultural patterns long lived and slow to change

Source: Hall, Edward T. (1960)

China is explicitly high context, for example it is regarded to be impolite to deny anything. Hence instead of saying 'no', other phrases are used to describe an inconvenience etc. implying that the answer is no. When applying the interaction and networks perspective in a Chinese business environment, it is important to understand differences between high and low context cultures, otherwise results may be distorted. While Chinese people often use high context patterns, Westerners are more inclined to use low context patterns (Burns, 1998). For example, analysing constructs such as trust between German and Chinese firms can result in a distortion of results if an emic approach is not used. German culture is traditionally associated with being low context, or very 'frank' in their spoken communication.

Hofstede (1980) has researched the nature and extent of cultural differences. He conceptualises "culture" as the "collective programming of the mind". As individuals grow up in any culture their assumptions about the way a society should be organized are

instilled into them. These taken-for-granted assumptions are rarely questioned, unless perhaps there is contact with another culture, which operates on different or incompatible assumptions. In pursuing the implications of his research, Hofstede (1980, 1983, and 1993) has shown that certain management practices can be compatible, and others incompatible, with the culture of a society, and has further suggested that cultural incompatibility undermines the successful transfer of managerial practices from developed countries to developing countries.

Although Hofstede provides seminal work in relation to the scope and size of his study into cultural aspects, some researchers are critical of his work. For example, Tayeb (2001) argues that it is impossible to attribute cultural characteristics to a nation. The author stresses that in many respects elements of Hofstede's study exist in all of us. For example, in the individualist UK a tragedy befalling a school in a small town brings the best of community spirit in all the citizens up and down the country. Second, many Scottish people, although regarded as being highly individualistic, very much 'pull together' when being active members of a trade union.

Trompenaars (1993) describes culture as consisting of seven dimensions. His research resulted from 15 years of training and research in 30 companies in 50 different countries:

1. Universalism v Particularism

In Universalism cultures rules are favoured over relationships. Particularism is the opposite in that relationships are important. Particularly saving 'face'. The UK is regarded as falling into the Universalism category, whilst China is particularist. This cultural difference has the ability to create problems between IJV partners, especially during the negotiation stage. The Chinese company are likely to take time building relationships, whilst the UK firm needs to demonstrate patience, since their objective of speedy negotiations is unlikely to happen!

2. Individualism v Collectivism

Hofstede (1980) also highlights these dimensions. Individualistic cultures consider ones 'self' as important. Where-as collectivist cultures follow 'group' mentalities. China is very much a culture based on group orientation. While the UK scored highly for individualism.

3. Affective v Neutral

Extent to which emotion is displayed in communication. Relationships, which are guided by reason, are called neutral, those that are dominated by emotions are called affective relationships. For example, the UK is often regarded as a neutral country

4. Specific v Diffuse relationships. In a diffuse society, aspects of personal leisure and family life are not necessarily distinct from life at work, and relationships may transcend many or all aspects of life. Specific cultures are characterised by the separation of the different areas of life, with only a few links between them. Chinese culture is often regarded as diffuse. This has been addressed in the sense that social relationships are very often linked to relationships. This is because it is very important for the Chinese businessperson to establish a basis of trust.

5. Achieving or Ascribing

The latter applies to China. In ascribing societies achievement is a more collective affair and organisations in these societies often justify a power distance so that things get done. Power here does not need to be legitimised by title or qualification and abuse is checked by moral responsibilities.

6. Perceptions of time

This reflects different attitudes to time: synchronic and circular attitudes allow parallel activities and are less concerned with particularity. China is often regarded as following a synchronic concept of time in that personal relationships are highly important and life-long

relationships dominate. In a 'sequential culture' the focus is on rational efficiency and time is viewed in a more linear fashion.

7. Relating to nature

The ability of human beings to control nature. 'Inner-directed' cultures want to overcome nature and depend a great deal on technology, while 'outer-directed' cultures see themselves more as a product of the environment. China is often regarded as being 'outer-directed', although some might argue this is changing in view of its rapid economic development.

In their study of conflict management in US-Chinese joint ventures, Weldon and Jehn (1996) stress the importance of effective intercultural interaction to the success of US-Chinese joint ventures. Not understanding cultural differences can lead to conflict and possible dissolution. A good example of how intercultural interaction can be a problem in joint ventures between western and Chinese firms is the well-known case of 'Beijing Jeep'.

'The Chinese and Americans (at Beijing Jeep) had been trying to coexist and adapt to one another, but it wasn't easy. Both sides found that the cultural differences were even greater than either had expected before the joint venture opened its door. (Mann 1989:199)

For this study, rather than attempting to measure culture using Hofstede's dimensions, the empirical research used questioning techniques that attempt to find out respondents' cultural understanding and whether there is a positive correlation with IJV performance. Rather than attempting to measure culture, the research adopts both emics and etics. When conducting semi-structured interviews with ethnic Chinese respondents, 'emic' Chinese constructs were discussed e.g. *mianzi* (face). The constructs used for Western companies have been recognised by Western researchers as important factors to successful business relationships. Whilst Chinese cultural values, are obviously emic in that they are applicable to Chinese respondents.

2.7 Chinese Cultural Values

'If you know, to recognize that you know,

If you don't know, to realize that you don't know:

That is knowledge.'

- *Confucius*

The above Confucian saying serves as a useful reminder to Western firms considering entering China not to pretend to understand Chinese culture. In reality Chinese culture is extremely complex, but understanding it is a vitally important factor for any foreign company considering investing in the developing market. Firms that show an understanding of Chinese culture are more likely to display an appreciation and willingness to adapt to the local environment. Although a greater number of foreign firms than ever before now have a presence in China, cultural values remain an important part of conducting business with the Chinese. Perhaps the most well known aspect of Chinese culture is *guanxi* (personal connections). Many foreign firms employ local agents or consultancy firms to conduct business on their behalf (Yeung and Tung, 1996). The difficulty in understanding the culture, combined with handling the government and legal issues make market entry a potential minefield for even the most well established multinational company. An example of a UK firm who has proven to be successful during a short period of time is B&Q. The DIY store has a number of stores in Shanghai, and plans to develop another fifty within the next five years. Although establishing the joint venture is a time consuming process, B&Q appointed a local management team to liaise with the Chinese government and local community. Obviously this approach helped to overcome the problems of misunderstanding cultural values and attempting to establish *guanxi*.

Dividing business relationships on the basis of Western and Chinese culture does not take into account other influences. Firstly, the social networks established by school ties are not exclusive to China. Many of the directors on the boards of UK firms went to school together (Ford, *et al.* 1998). Secondly, in British culture the nature of the business and

size of the company also affects the connection between social and business network. Traditionally small partnership building firms rely on social connections. Finally, a Western firm operating, as a wholly foreign owned enterprise (WFOE) in China, might decide to take either an ethnocentric or polycentric approach. Ethnocentrism is the belief that one's way of doing things is superior (Maisonrouge, 1983). By adopting this approach there is emphasis by the firm on home country culture, whereas polycentric focuses on the host country (Chakravarthy and Perlmutter, 1985). If an ethnocentric approach is used Chinese employees for the Western firm may adopt cultural aspects of Western business relationships. Multi-national companies (MNCs) also use cultural assimilators as part of cross-cultural training. This exposes members of one culture to concepts, attitudes, role perceptions, customs and values of another culture (Fiedler *et al.* 1971).

'Western cultures and ideas should be adopted only if they fit guo qing (national conditions). Good ideas applicable in China should be promoted; corrupted and inapplicable ideas should be discarded.'

The Late Chinese leader Deng Xiaoping. Communist Party directive 1984, cited by Rich Yan of the consulting firm Bain & Co, quoted in the Harvard Business Review, Sept-Oct 1994.

The late Chinese leader Deng Xiaoping's statement is a clear indicator to Western firms considering entering China on the importance of understanding Chinese culture. Chinese business practice is primarily concerned with social exchange. When considering a joint venture between a Western and Chinese firm, cultural exchange between parties helps to avoid conflict. Cultural exchange episodes also add to the total relationship and should be recognised as contributing to a long-term relationship.

The impact of culture on joint venture performance has received limited attention from researchers. When analysing culture in relation to JV performance. It is usually based on 1) *cultural distance*, 2) *cultural similarity* and 3) *cultural differences*. The main concept in this area is *cultural distance*, defined as the differences between home country and

foreign market in respect to the level of development, education, business language, everyday language, cultural values, and the extent of the connections between the home and foreign market (Carlson, 1975). A number of authors have discussed the impact of cultural distance on the relationship between foreign partners. Cultural distance can be defined at the country and corporate levels (Makino and Beamish, 1998). Cultural differences at the corporate level relate to differences in management practices, decision-making, core businesses (Killing, 1983; Pearce, 1997). Cultural distance at the country level has been discussed in the ownership strategy literature (Kogut and Singh, 1988; Agarwal, 1994). Some researchers argue that diverse cultures at both the corporate and country levels may have a negative impact on the longevity of the alliance (Parkhe, 1991). Killing (1983) suggested that cultural distance was a major problem in many financially unsuccessful and failed-shared management joint ventures. Stenning and Hammer (1992 p.78) in their study identified intercultural problems between joint venture partners leads to failure. However, a recent study by Park and Ungson (1997) found no empirical support to the positive association between cultural distance and termination. This is one of the few studies that did not find any link between cultural distance and performance.

Cultural distance might also have a positive impact on IJV performance. Partners from culturally distant countries might have more to learn from each other and the potential opportunities to realize synergies may be quite great (Pangarkar and Lee, 2001). There is some disagreement amongst researchers as to the impact of cultural distance on performance. Luo (1999) suggests that differences in national culture can be complementary and can have a positive impact on performance. However, these findings were contrary to that of Li and Guisinger (1991) who found positive relationships between cultural dissimilarities and failure rates.

In their study into performance relationships in UK International alliances, Glaister and Buckley (1999) found that cultural distance is not significant in relation to its impact on IJV performance. They support the view of Pangarkar and Lee (2001) by suggesting for alliances to succeed, it may not be necessary to join with a partner(s) with a similar culture, there may be benefits from choosing a partner with a dissimilar culture in order to

learn something from the relationship. So long as partners recognise and appreciate the differences in culture and regard this as an opportunity to learn new things and thus expand the capabilities of the organisation then this may be a source of strength to the alliance.

In his study of buying preferences amongst Swedish firms, Carlson suggested that the buying preferences correlated negatively with cultural distance. Similarly, in their study on the effects of cultural value on the behaviour and performance of overseas manufacturing firms in China, Li *et al.* (2000) found the effects of cultural distance on performance were not supported.

‘Influenced by their family-orientated collectivism, manufacturing firms supported by overseas Chinese showed some significant differences from those invested by capital from Western developed countries. The Chinese manufacturing firms also had significantly poorer financial performance than their Western counterparts, which suggests the negative effects of traditional Chinese family orientated collectivism in the manufacturing industry.’
(Li *et al.*, p.375)

Many Western companies overcome cultural distance by either employing expatriate managers or local Chinese managers. Interestingly, the majority of respondents in this research are ethnic Chinese managers working for British companies in China. Increasingly, it would appear Western firms are looking to local Chinese managers, rather than expatriates. There are two reasons for this. First, local managers are likely to have better *guanxi*, since they are able to cultivate *guanxi* on a daily basis. Second, local managers usually command lower wages. Combine this with possible resentment towards an expatriate from local Chinese staff; it is obvious why local management recruitment is an attractive proposition for Western firms in China.

Not all researchers are in agreement on the impact of culture in IJV relationships. The other extreme to cultural distance is cultural similarity. In their study into U.S. – Chinese joint ventures, Lin and Germain (1998) suggest cultural similarity between partners is an

antecedent for IJV success. The greater the cultural similarity between IJV partners, the better the IJV performance. They conclude the reason for this being conflict resolution. In other words, culturally compatible partners choose to resolve conflicts in a particular way – that is, conflict resolution mediates the effect of cultural similarity on performance. The authors analyse IJVs from the personal perspective (IJV managers). Interviewing parent company managers may have produced a different set of results. However, this is acknowledged as a limitation. When measuring culture in relation to performance, measurement becomes a major issue. Lin and Germain base their measures of performance on the following 1) the IJV's financial performance; 2) 'personal relationship' with the other JV party; and 3) the overall IJV relationship. The authors do not provide a critique of the various measures of joint venture performance. First, it is widely acknowledged by researchers that financial measurements are inappropriate for JV performance because many multi-national companies are in China for the long-term, and do not expect to generate huge profits overnight. Earlier studies of IJV performance used a variety of financial measures typically employed in business research, such as profitability, growth and costs. These have fallen out of favour due to their conceptual limitation in addressing only a limited range of goals, to problems of data unavailability, and to distortions associated with transfer pricing and creative accounting (Child and Yan, 2003). Second, researchers into FDI in China are increasingly using the extent to which strategic objectives have been achieved. This can be from the joint venture or parent firm perspective.

Lane and Beamish (1990) discuss many western firms seek joint ventures as a means of growth and global competitiveness without understanding the behavioural and cultural aspects.

'Failure starts from the influence of culture on behaviour and management systems which create unresolved conflicts. Compatibility between partners is the most important factor in the endurance of a global alliance. Differences between national cultures if not understood

can lead to poor communication, mutual distrust and the end of the venture.’ (Lane and Beamish, p.88)

It appears that the results between cultural distance and performance are largely dependent on performance measures. Makino and Beamish (1998) suggest that JVs formed between partners that share a similar national or corporate culture, tend to have a higher likelihood of survival and attain superior financial performance than those that do not (Makino and Beamish, p.802). Although their study is based on Japanese companies, comparisons can be drawn with China. The researchers use a financial measure for performance, namely: a three-point scale coded ‘loss’, ‘break-even’ and ‘gain’. This type of financial measurement has also been used in researching Western / Chinese joint ventures. The problem using this method, is foreign firms involved in a jv are unlikely to make a profit in the short-term. A major strategic objective for UK companies establishing an IJV in China is access to markets. Multi-national companies are more likely to be concerned with market share, growth and raising brand awareness, rather than making quick profit overnight. Consequently, using financial measurements is likely to tarnish results relating to cultural distance and performance. Increasingly, researchers are using a range of performance measures. A favoured option is to base performance on the extent to which strategic objectives have been achieved.

Chinese researchers have examined cultural values and their relation to performance. Yeung and Tung (1996) interviewed 19 companies in order to establish the relationship between guanxi and its financial performance. The heads of China operations in all 19 companies were ethnic Chinese. The executives were presented with a list of 11 factors and were asked to rank them in order of importance to long-term business success in China. Subsequently, guanxi was the only item that was constantly chosen as a key success factor.

Glaister and Buckley (1998) considered the effect of national cultural and corporate cultural differences on the relationship between objective and subjective measures of

alliance performance. They argued that when parent respondents believe that no difference in national culture exists, then resulting correlations between the objective performance measures of survival and subjective performance measures are stronger (Glaister and Buckley, 1998, p.112). The authors conclude that the relevant impact of national and corporate culture differences are clearly worthy of future examination in alliance research. Pothukuchi, *et al* (2002) have argued that the negative effect from any culture distance from IJV performance originates more from differences in organisational culture than national culture.

For this study, four important Chinese cultural values – *guanxi*, *xinyong*, *renqing* and *mianzi* will be analysed qualitatively to determine the extent to which they are likely to impact IJV performance. Measurement techniques are discussed in chapter four. This study moves away from previous studies into cultural distance and cultural similarity, by focusing on cultural understanding and its relationship to performance. Primarily, there are three reasons why cultural understanding is a preferred measure to distance and similarity. First, a Western firm may be culturally distant from their Chinese partner e.g. a German firm (highly individualistic) but still show willingness to understand Chinese culture by conducting research into the culture and perhaps adopting a polycentric approach to doing business. Second, a domestic joint venture e.g. between two Chinese firms, maybe culturally very similar, and conflict still occurs due to differences at a sub-cultural level. If there is no willingness to adapt to each other subculture, conflict, including possible JV dissolution may occur. Third, it is too simplistic to say that IJVs that show high cultural distance will not be successful. One has to look at the success of Volkswagen in China. Quite simply the German and Chinese culture could not be more different.

2.7.1 *Guanxi* (personal connections)

Five elements of Chinese culture relating to individual behaviour are identified by Child and Lu (1996) - respect for age and authority, group orientation; the importance attached to family relationships; close personal connections *guanxi* and face *mianzi*. The most

important of these elements in the context of Chinese business is *guanxi* (Yeung and Tung, 1996).

The Chinese devote considerable time to establishing *guanxi* (Davies, 1995; Warner, 1987). *Guanxi* is translated as connections and refers to the existence of direct particularistic ties between an individual and others (Farh *et al.* 1998). It can take two forms: 1) a web of personal connections, relationships and obligations that businesspersons can use to obtain resources and advantages, and 2) the exchange of favours or the purchase of influence (Abrahamson and Ai, 1997). In terms of foreigners doing business in China it means having, as part of your *guanxi* network, an influential person in an organisation or more often in a government position (Buttery and Leung 1998). It has been related to the constructs of trust, shared goals/cooperation, a collaborative approach to disagreements, and the development of networks of importance connections (Abrahamson and Ai, 1997). Farh *et al.* (1998) found in a study of business executives and their important connections in China that a high level trust exists in *guanxi* relationships, as well as a willingness to share information or extend resources important to the executive's business pursuits.

The concept is now well documented in the West, and has received similar coverage to the practice of *kaizen* in Japanese management. Fan (2002) suggests *guanxi* is tactical rather than strategic because it is a personal asset owned by an individual, which makes *guanxi* difficult to sustain. However, it has also been viewed as strategic because it plays a crucial role in business transactions and a company with good *guanxi* can enjoy competitive advantage (Child and Lu, 1996). Certainly Chinese managers expect Western managers to have an understanding of *guanxi*, and follow the general rules. However, the Confederation of British Industry (CBI) suggests using *guanxi* can be a mistake as 'asking and accepting favours from officials may help you achieve a short-term advantage, but inevitably those same officials will one day ask for a return favour you may not wish to grant. If you refuse, the same official who assisted you will very likely turn against you and look for ways to punish your business'. This viewpoint suggests that foreign companies

need to be aware of the possible implications associated with developing close relationships. The concept of *guanxi* is not unique to China; other Asian countries have corresponding types of personal connections e.g. Japan (*Kankei*) and Korea (*Kwankye*).

Arias (1998) defined *guanxi* relationships as beginning with social relationships before business relationships are established. This research is titled interpartner relationships for this reason. In Chinese business it is difficult to distinguish between business and social relationships as the two are interlinked. *Guanxi* is dynamic and social *guanxi* is transferable. Thus if A wants to make a request of person C with whom A has no *guanxi*, A may seek out a member of her *guanxi* network, person B, who has *guanxi* with C. Given B provides A the introduction to C, a *guanxi* relationship may be established between A and C (Tsang 1998). Researchers have compared relationship marketing and the western concept of networking with *guanxi* and *guanxiwang*, only to find that the western culture addresses purely business and commercial based relationships (Luo, 1997; Arias, 1998).

According to Yeung and Tung (1996) the following activities are crucial for cultivating *guanxi*:

1. Group identification
2. Tendering favours
3. Nurturing long-term mutual benefits
4. Cultivating personal relationships
5. Cultivating trust

In advanced economies, companies do business within a 'rules-based' system, with business generally conducted by using contracts under laws that are widely known and consistently enforced. China is not a rules-based economy; it is still very much based on relationships. Business is based around relationships rather than contracts.

As China opens up, *guanxi* has become known as 'social capital' and has been seen in the West as an important element in serving commercial contracts between corporations.

The significance of relationships in China has been well documented by a number of Western researchers (Warner 1987; Child 1994; Bjorkman 1996; Strange 1998). There is great emphasis on personal relationships in China so that it is difficult to get decisions based on impersonal relationships. A greater emphasis is placed on maintaining and developing relationships than in the West, and this is something that Western firms are slowly beginning to realise, along with the complexity of Chinese culture. Waters (1991) highlights the most important contribution to efficiency and success in East Asian firms is their long-term investment in people at all levels particularly the development of relationships.

According to Fang and Kriz (2000), the meaning of business relationships in Chinese is interpersonal versus inter-organisational in Western culture. Discussing relationships between firms is perhaps taking an anthropomorphic view, since a company and its markets are considered as interacting parties to an exchange. However, these inter-organisational relationships are based on interpersonal relationships. Business relationships when related to sole traders and partnership firms in the UK are very much interpersonal in orientation. For example, many builders have friends who are electricians and plumbers with whom they cooperate to complete a comprehensive building job, and vice-versa. This type of business relationship is similar to the Chinese concept of *renqing* (*favour for a favour*).

Tse *et al.* (1988) stated that exchange relationships exist in both Western and Eastern cultures, but in the Western culture they are based more on principles of balance and specific relationships while in Eastern culture they are long-term moral obligations. They make the point that in the Eastern culture, long-term moral obligations involve rules of repayment and lead to preferential treatment to "insiders". Their study of Chinese from the People's Republic of China, Hong Kong Chinese and Canadian executives also found that Hong Kong executives were influenced by Western and Chinese cultural norms.

Arias (1998) further addressed the issue of a changing attitude in China. He opens the door to consideration of the fact that *guanxi* remains a social construct in China, but the economic and structural conditions are changing causing *guanxi* to not be as prevalent as it once was. Furthermore, Xin and Pearce (1996) found that *guanxi* and trust between business connections were more important to the private Chinese companies as opposed the state-owned companies in China. The recognition of the importance of *guanxi* is a very important point in relation to this study. It is very likely that both joint venture partners who maintain good *guanxi*, means they possess a successful working relationship.

As mentioned, for this study, *guanxi* will be measured to examine the impact on joint venture performance. *Guanxi* has proven to be an important indicator of performance in buyer-seller relationships. Abramson and Ai (1997) studied the business-to-business sector and found that *guanxi* style relationships were strongly related to improved performance. However, the significance of *guanxi* may be on the decline. Fan (2000) argues its role and importance in business life will be diminished as the country moves towards an open market system.

As revealed by existing literature, the concept of *guanxi* is related to a number of Chinese social behavioural patterns, in particular, *xinyong* (trust), *mianzi* (face), and *renqing* (exchange of favours). These constructs will now be explained, as they are measured to examine the impact they have on joint venture performance.

2.7.2 *Mianzi* (face)

Face is a concept of central importance because of its pervasive influence in interpersonal relations among the Chinese (Yau 1988). Chinese face can be classified into two types, *lian* and *mian-zi* (Hu, 1944). *Mianzi* stands for the kind of prestige that is emphasised. A reputation achieved through getting on in life, through success and ostentation. When *lian* is lost, the person will feel that he/she can no longer live in the world. *Mianzi* can be used to form new networks or *guanxiwang*.

Leung and Chan (2003) argued that face work is multi-dimensional in nature. They refer to it as (4R) in nature. First, 'reciprocity' which is concerned with Chinese relational exchange. Second, making appropriate 'responses' in order the other party does not lose face. Third, 'respect' relates to the Chinese behaviour of showing mutual respect during face-to-face interactions. Finally, 'reputation' relates to the enhancement of respondent's personal *mianzi* that may improve their reputations in the Chinese market. The authors argue that Hong Kong negotiators use these dimensions to good effect when conducting negotiations with their Chinese counterparts. They conclude by stressing that foreign negotiators should adapt face work into their cultural strategy, thereby helping to establish vital *guanxi* with their Chinese partner. Leung and Chan's (2003) study is an excellent illustration of how important cultural research is for Western firms considering penetrating the Chinese market.

Woo and Prud'homme (1999, p.317) define face as 'having high status and prestige in the eyes of one's peers, and it is a mark of personal dignity'. Based on their study into cultural characteristics in the Chinese negotiation process, the author's empirical findings included:

- In a business transaction, a person's face is not only his own, but that of the organisation he represents.
- It is important to preserve the face of the other party to maintain dignity and harmony, especially in front of other people.
- The easiest way to make someone lose face is to be critical of him in front of other people.
- Always treat people with proper respect
- Giving someone face earns respect and loyalty and should be done whenever the situation allows it.
- Being polite and courteous can also be regarded as giving face.

Aggressive negotiating behaviour from either party can damage the face of the other (Leung and Chan, 2003). This is an important consideration for Western companies negotiating potential IJV contracts in China. It is also an important issue at a political level. Leung (2000) provides the following illustration 'When the then Hong Kong governor Mr Chris Patten visited China in 1993 and did not attract the formal reception from the former Chinese Premier Li Pang, China as a country did not give face to Mr Patten.'

Mianzi can be a major issue for joint venture partners when it comes to staff promotion. In Chinese enterprises, seniority is a key factor in determining pay and promotion. Supervisors are normally more advanced than their subordinates in terms of both age and experience. This emphasis on seniority is consistent with the Chinese traditional respect for elders (*changbei*) who are supposed to be more knowledgeable and wiser because of their life experience. However, the respect for seniority clashes head on with the Western idea of a meritocracy in which the most capable should rise to the top regardless of age (Tsang, 1994).

Mianzi is very much linked to *guanxi*, in that hurting other *mianzi*, has a negative affect on *guanxi*. An example of how an understanding of *mianzi* can benefit a firm is the case of Motorola in China. During a period when relations between the US and China were at an all-time low, many US firms were discouraged from investing in China. However, Motorola put its investment plans on hold; therefore ensuring their Chinese partner did not 'lose face'.

It is not only Western researchers that need to be aware of face. The following account by Tsang (1998), a Hong Kong Chinese, who speaks Cantonese, Mandarin and English, is a perfect illustration of this:

"As a Hong Kong Chinese, I am less sensitive to the face game than my mainland counterparts. During the lunch, I asked the party secretary about the objectives of

forming the joint venture. He replied that one of the main objectives was to improve production technology. As such, the venture imported new machines. Inadvertently, he also mentioned that the new machines did not fit in well with existing ones and at the end, they had to sell the machines to other factories. As a follow-up question, I asked something about the decision-making process with respect to purchasing the machines. I realized my blunder immediately after I had finished asking the question. As the most senior person representing the Chinese partner, the party secretary was, to a great extent, responsible for the mistake of not checking the compatibility of the new machines before making the purchase. My question would make him confess in front of his subordinates, and thus would hurt his face. I should have asked such a question in private only. The party secretary remained silent for a short while. To save his boss's face, the quick-witted general manager replied that the previous general manager had made the purchase decision and that was one of the reasons why his predecessor had been fired (pp.514-15)."

Given that the majority of respondents in this study are of Chinese origin, it is important to bear in mind they may take on Western views, be out of touch with elements of Chinese culture (similar to Tsang) or work in an organisation where the organisational culture has an impact on their national culture. For example, if a firm is largely ethnocentric in nature, then the Chinese manager will be working very much in a Western organisational culture.

2.7.3 Renqing (reciprocity)

Renqing refers to the bond of reciprocity and mutual aid between two people, based on their emotional attachment or the sense of obligation and indebtedness (Yang, 1994). *Guanxi* is clearly linked to *renqing*. It has been described as a 'private favour exchange'. In a *guanxi* relationship, *renqing* can be demonstrated in the form of gifts. The recipient will then feel indebtedness to this person. In other words, they will owe a *renqing* to the provider that should be paid back in the future (Hwang, 1987). The problem with *renqing* is that many westerners view it as bribery. Western companies tend to take bribery by staff

in China very seriously. For example, the U.S. telecom equipment maker Lucent Technologies sacked four top leaders after being accused of bribery. If proven, the company may be subject to a \$2 million fine and \$100,000 for the four executives involved. This is in keeping with the Foreign Corrupt Practices Act – (Beijing Today, April 16, 2004).

Since local and central governments are major actors in IJV development, a foreign firm may consider *renqing* in order to ‘speed up’ the IJV development process. When an actor runs into trouble, one should sympathise, offer assistance, and ‘do a *renqing*’ for him (Hwang, 1987). In relation to an IJV relationship *renqing* could occur outside the boundaries of the contract. For example, a UK parent company manager may aid a Chinese parent manager by providing information on UK Universities for his son or daughter. The Chinese manager would then experience a sense of obligation towards his UK partner.

2.7.4 *Xinyong* (Trust)

Trust is another important cultural value in Chinese society (Tsang, 1998). Yeung and Tung (1996) state that 85% of the companies they interviewed underlined the importance of trust by regarding it as an essential condition for building and maintaining *guanxi* relationships.

Purchase and Kriz (2000) suggest Chinese trust or *xinyong* is interpersonal as opposed to interorganisational frameworks in Western business culture. However, other factors can affect levels/types of trust. In Britain, where inter-firm relations are embedded neither in a business culture with strong beliefs in fair trading nor in strong legal and institutional regulation, trust generation and maintenance depends more exclusively on individual relationships developed over a long period (Burchell and Wilkinson, 1996). This is not dissimilar to the Chinese. Chinese make friends first, build up dependency and trust, and then do business later (Waters, 1991).

Kriz and Fang (2003) suggest that success in China is not built on *guanxi*, but interpersonal trust. They refer to this trust as '*xinren*' loosely translated as 'deep trust.' They go on to suggest that *guanxi* opens the door, but it is *xinren* that will determine how well you are treated once you are in. This is a similar concept to that provided by Fukuyama (1995) as explained in the larger section on trust (2.5.1).

2.7.5 Concept of Time

A person's concept of time can have important implications on an IJV relationship. Concepts of time are usually divided into two systems – monochronic and polychronic. Monochronic time system can be defined as 'time that is seen in a linear way, from the past into the future, the emphasis is on doing one thing at a time'. Polychronic time system, can be defined as 'the simultaneous occurrence of many things and many people'. Hall (1997) identifies people with a monochronic time orientation as those not wishing to be interrupted, a 'time is money' attitude towards doing things.

Table 2.2: *Differences between monochronic and polychronic time systems*

Monochronic Time system	Polychronic Time system
Do one thing at a time	Do many things at once
Are committed to the job	Are committed to developing relationships
Stick to plans	Changes planning on a regular basis
Are accustomed to short term relationship	Try to develop long-term relationships
Take time commitments seriously	Try to achieve time objectives if possible
Follow rules of privacy and consideration	Are more concerned with those who are closely related than privacy

Western countries such as the U.S. and the UK are regarded as following monochronic time, whilst the Chinese follow a polychronic time system. The Western business ethos is very much based on winning contracts within a timeframe, beating a deadline or achieving strategy prior to a particular date. The Chinese however, spend a great deal of time building trust, understanding their partner on a social level before entering into a business agreement. They do not feel restricted by time. Differences in the concept of time between Western and Chinese partners can have a negative impact on an IJV relationship, especially during the negotiation process. For example, the Chinese may be willing to wait to build trust and take their time in aiming to get the best deal, While the Western negotiators maybe under strict orders to 'do the deal' by a set deadline. Very often Chinese firms use delaying tactics to their advantage. Pressure can be applied by waiting to the eleventh hour (prior to foreign negotiators return flight!). This tactic can be very effective if foreign negotiators need to return for Christmas! This is perhaps one reason why so many Westerners having conducted business with the Chinese, regard them as the worlds toughest negotiators. It is not unusual for negotiation to last months or even years. The Chinese very often use this to their advantage in order to generate concessions from their potential Western partner.

The initial stages of an IJV involve learning about your potential partner(s) and building trust. For Western firms looking at establishing alliances with another Western firm this process may only take a few weeks. This is because culturally they are very similar and operate within the same domestic market and are affected by similar macro environmental influences. However, for a Western firm negotiating with a Chinese partner, the negotiation lasts an average of two years.

Finally, for this study, the Chinese cultural values discussed above were analysed using data from the twenty-five respondents who took part in the qualitative study. The reason for this is the emic areas relating to Chinese culture are all extremely sensitive. It is likely including direct questions, as part of a questionnaire would have generated a very low response rate. This is for two reasons. First, in order to establish a cultural value the

respondent would have to describe a typical situation. This is highly sensitive in nature. Second, the author has no relationship with any of the respondents. The importance of relationship in China has already been emphasised. Interviewing respondents makes it easier to perhaps extract information because at each interview the author followed the Chinese philosophy of *renqing* (each respondent was given a Burberry tie for their time). After realising that fake Burberry products can be bought in China with ease, the author found some interviews a little embarrassing! In hindsight it would have perhaps been better to give products symbolising British culture e.g. coins or stamps. Finally, meeting face-to-face allowed the author to stress issues relating to confidentiality and the purpose/importance of the study.

2.7.6 Chinese Management

The institutional context of the management process in China can largely be understood as a dynamic system of interdependency relationships (Child, 1994). The Chinese approach to management emphasises the importance of building relationships, on the understanding that if successful relationships are built, then business transactions will follow. Henley and Nyaw (1986) suggest the management of Chinese enterprise is located within a network of interlocking relationships. Key elements of the Chinese management approach such as relationships (*guanxi*) have been discussed. It should be noted however, that relationships in China carry a greater significance than in the West, given that Chinese management is based on a lack of regulations. Walder (1989) identifies relationships as part of what he calls the 'four facts of life' in the world of the Chinese manager. These are - cultivation of vertical relationships, maintaining a political coalition within the enterprise, satisfy criteria that derive from the enterprise as a socio-political community and develop non-market exchange relationships.

Chinese management draws on a number of concepts of Confucian culture that play an important role in business practice in China. The Confucian value system stresses hard work, respect for authority, harmonious relationships and obligation to the family (Smith,

1974). The strong emphasis on the family is clearly evident in Chinese business. The Chinese style of management is based on family business, which is commonly dominated by one man and has simple structures and limited capabilities (Redding 1992). People from collectivist society like China tend to stretch the boundary of family indefinitely to locality and race as a sense of collective identity to rely on (Triandis, 1988).

The Chinese manager takes a very much 'hands on' approach, considers the relationship with his staff, and takes into account responses to his management. The corporate structure of Chinese firms is typically hierarchical, with fewer staff layers than Western firms. For example, a factory may consist of only three layers - a director, line manager and operator. Seniority in promotion and internal promotion are commonly practised in the Chinese enterprises. It is usual for companies to have a comprehensive performance appraisal system.

China is a Confucian culture and significantly different from Western cultures in terms of collectivism and individualism (Hofstede, 1980). It is a collectivist society based on social relationships and group welfare; all individual effort and achievement is expected to contribute to the collective good (Laaksonen, 1988). Whereas Western cultures such as the U.S. are individualistic, which emphasises individual ambitions and personal achievement. The strong emphasis on personal relationships is prominent in Confucianism. Confucius himself listed five cardinal human relationships in society: between ruler and minister; father and son; husband and wife; older brother and younger brother; friend and friend (Campbell and Adlington, 1988). Of these relationships, only friend and friend are equal, each one has their place in society, particularly respect for elders.

The Chinese family group has a strong influence on an individual's behaviour. This 'familism' is the single most essential concept to characterise Chinese culture (Yang, 1972). Unlike the West, the conceptual equivalence of family goes beyond immediate family members to include other generations. These strong relationships and influences between family members are recognisable in the number of successfully run overseas small-medium

sized Chinese family run businesses. This is in contrast to the lack of multinational Chinese firms, partly due to those firms being restricted in their growth, as a result of over emphasis on relationships confined within the family. Subsequently they find it difficult to go beyond this. Chinese inter-group relationships are often limited to two types; i.e. family (inside) and non-family (outside). Out group members are believed to be less attractive, less capable, less trustworthy, less honest, less co-operative, and less deserving than members of the in group (Kramer, 1991).

Since the role of personal relationships is crucial to doing business in China, the Chinese have a different view of a business contract from the typical Western view. A Chinese contract may only be a few pages and is far more general in content. The details of contracts are seen as far less important and subject to change. The Chinese prefer vague agreements, which can be subject to change (Kenna and Lacy, 1994). This makes doing business very difficult for Western firms, where business relationships are underlined by detailed contracts. However, since Kenna and Lacy's article, China's rapid legal reform has resulted in greater emphasis on contractual obligations.

A major issue for both parent companies involved in an IJV is one of management. Increasingly, local Chinese managers are managing IJVs. However, early IJVs in China preferred to adopt a combination of Chinese and Western management. This can create a number of problems for the venture. Joint ventures that draw functional managers from both parents are more difficult to manage than those that do not. Managers of IJVs may not only have communication problems because of language barriers; they may also have different attitudes toward time, the importance of job performance, material wealth, and the desirability of change (Killing, 1982). The same author cites an example of how employing foreign staff can create operational problems.

'An American – Iranian venture did have problems until a new general manager sent most of the Americans back home. They could not adapt to dealing with a workforce that had on average, a grade three education. The Americans were replaced with Iranians

who were first sent for short training periods with the U.S. parent. Performance improved considerably'.

The above illustration could easily apply to a Western-Chinese IJV. It is likely that local Chinese managers will have to adapt to certain western management practices. Cooke (2005) argues that Human Resource Management in China is being influenced by western practices in several ways. One source of influence comes from MNC's and IJV's operating in China (Cooke, p.192). While it is important to change and adopt new management techniques in order to survive or excel, it is still important for the Chinese leader to retain at least the shadow of some of the traditional values like perseverance, patient, honesty, integrity, trustworthiness, morality and working hard, just to name a few.

In order to pursue success it is not only down to one partner to make an effort understanding, and perhaps adapting their style of management. It is important for both parties to make an effort firstly understanding the differences between management styles. A clear indicator of the key differences is provided by Child and Lu (1996). Table 2.3 highlights some of the key differences between Western and Chinese management practice. However, their comparison does not take into account operational mode. An IJV is likely to certain elements of both Chinese and Western management. The extent largely depends on the flexibility of parties concerned, along with the terms of the contract.

Table 2.3: A comparison of Chinese and Western approaches to management

<i>Concepts and practices</i>	<i>Chinese management under a centrally planned economy</i>	<i>Western management under a market economy</i>
Corporate governance structure	Planning authorities acting on behalf of state ownership	Boards of directors acting on behalf of shareholders
Decision-making authority	Industrial bureau or ministries	Boards of directors and CEOs
Managerial autonomy	Little before the reform, much improved now	CEO enjoys autonomy under the board
Organizational performance criteria	Multiple rationality-economic, political and social obligations	Economic rationality, tempered by social responsibility
Degree of procedural formalization	Low formalization, but highly personalized processes	Highly formalized and relatively impersonal
Information communication	Mainly vertical; little horizontal flow	Multi-directional
Management training and development	Not emphasized before mid-1980s	Highly emphasized
Reward policies and incentive systems	Rewards dependent on age and long service; incentives not closely related to performance	Performance-related

Source: adapted from Child and Lu (1996) *Management issues in China: International Enterprises*, London: Routledge, p.3.

Although table 2.3 provides an interesting insight into Western and Chinese management, it is worth noting that since the mid-90's, China's rapid economic reforms mean an increasing number of Chinese managers now adopt Western management practices.

Table 2.3 highlights important issues that both parties need to be aware of before establishing an IJV in China. For example, if employing a local manager, they may need to be educated about many of the above points. It is not simply enough to assume they have a firm grasp of Western business practice.

CHAPTER THREE: DOING BUSINESS WITH CHINA

3.1 Introduction

This chapter discusses the key factors foreign firms need to understand before deciding to enter China. These include cultural differences, choice of market entry method and how to conduct cross-cultural research.

For this research project, an analysis of joint venture relationships cannot be undertaken without a clear understanding of these important elements.

3.2 Background to the People's Republic of China

China is the largest emerging economy and the second highest foreign investment recipient in the world. It is fast becoming an economic giant, not only in Asia, but also on the world stage. Between 1978 and 1997, China's GDP registered an average annual growth rate of 9.8 per cent, with the per capita GDP growth rate at 8.4 per cent (Reuvid and Li, 2000). If it maintains this growth rate, many economists believe it will become the world's largest economy by the year 2020. It is expected to overtake Britain in 2005 and Germany by 2007. For the last two centuries one country has emerged as the dominant economic power. The 19th century belonged to the UK, the 20th century the US and it looks like the 21st century will belong to China.

Child and Lu (1996) attribute China's rapid economic development to the transformation from a centrally planned economy towards a market system and the opening of the economy through the 'Open Door Policy'. Since the open door policy was installed during the late 1970s, China has become a highly attractive market for foreign companies. There has also been significant growth in foreign trade. In 1997, China's foreign trade reached US\$325.1 billion, which was 14.8 times higher than 1978, ranking China tenth in the world (Reuvid and Li, 2000). The size of the population combined with the economic growth are

key factors for foreign firm's wishing to gain access to the market, and in many cases hoping to gain 'first mover advantage'. An example of a firm that has recently accessed China is the UK cider producer HP Bulmer. Prior to Bulmer's entry into the market, there were no producers of cider in the country. China's surplus supply of apples and the identifying of a suitable partner in San Kong Brewery led to the development of an IJV in the home of Confucius – Qufu. This is a typical example of how foreign firms are looking at market development in China as a long-term strategy. However, it is not all straightforward for foreign investors. In a similar industry – soft drinks, a joint venture between Pepsi and a local Chinese firm failed from the outset. The reason for this is Pepsi claimed that its partner was not honest in reporting expenses, staff remuneration and advertising fees. Subsequently, the company decided to close the joint venture and brought the case to court, aiming to sue for damages (Hong Kong Economic Times, October 17th, 2002)

The switch to a market economy has finally led to China being accepted as a member of the WTO. Along with Taiwan, China has made sacrifices in order to become a member of an organisation that now comprises 144 countries (WTO, Online 2002). These sacrifices include the opening up of both the insurance and telecommunication markets.

In the year 2008, all eyes of the world will be focused on Beijing, as China becomes host to the Olympic Games for the first time. The Chinese government is investing millions of dollars in reducing the pollution and developing the infrastructure required to stage such an event. Beijingers are actively encouraged by the government to learn English in preparation for the influx of foreign visitors that will descend on the city. This is an ideal opportunity for the country to continue to share its culture with the outside world.

The long-term rewards that can be gained for foreign firms seeking market development in China are obvious. Joining the WTO and the Olympic games provide real investment opportunities. IJVs continue to be a popular market entry method for accessing China; therefore this underlines the importance of this study. Although no longer the only means

for accessing China for foreign firms, they remain an attractive option for SMEs in particular looking to combine their skills and resources with a Chinese firm providing, above all, local knowledge. Also, Chinese firms have the necessary connections along the entire distribution channel, thus saving their Western partner the time and extreme complexity of formulating such a system.

For this project, emphasis will be on how joint venture partners interact, how cultural differences affect the relationship and joint venture performance.

3.3 FDI in China

Foreign Direct Investment (FDI) plays a significant role in the Chinese economy. China approved 20,549 new enterprises of foreign direct investment (FDI) from January to October 2001, 17.47 percent above the same in 2002 (MOFTEC). During this period, the contracted foreign investment totalled 55.20 billion U.S. dollars, up 26.85 percent over the same period in 2002, while foreign-funds in use increased 18.63 percent to 37.25 billion U.S. dollars (MOFTEC).

Given the main focus of this study is on British parent companies, the following discussion will focus on the UK's FDI in China. After 1949, and the establishment of the PRC, of the Western companies to trade with China, British firms were among the first to enter the market. The 48 Group (in Chinese si-shi-ba-jituan) is still well known in China. They established business in China from the early 1950's. The organisation is now called 'China Britain Business Council' and undertakes trade promotion between the UK and China.

According to MOFTEC, the UK's investment in China (up to the end of 2001) is made up of 3084 joint ventures, with a contractual investment of 18.49 billion US dollars, and a realised investment of 9.8 billion US. The UK currently stands as the world's 7th largest investor in China, behind Hong Kong, Japan, Taiwan, the US, Singapore, and South Korea. Within the European Union the UK is ranked as the largest cumulative investor,

Germany has 2700 JVs, France 1871, and Italy 1629. During the last three years, figures from MOFTEC state that per year Germany has made more investment. However, based on the cumulative totals, the UK remains the top EU investor.

The bulk of British business in China is concentrated in the Shanghai/Beijing/Guangzhou areas. UK firms have some of the biggest individual total investments. BP and Shell, between them, share about 7 to 8 billion dollars of investment. BP is probably the largest single investor of any foreign company in China. Unilever, another British company, also has something in the order of 2-2.5 billion dollars invested in China. Of the 18 billion dollars quoted by MOFTEC for total contractual UK investment, over half of this is from three companies! There are a large number of UK SME's with interests in China. Investments range from a few thousand pounds to several million. The UK is strong in several industries. Manufacturing (Rolls Royce in Xian producing engine components for planes), tourism (Hilton Hotels and Holiday, both owned by the UK Six Continents Group), and of course petrochemicals (BP and Shell).

Although the UK makes a significant contribution to China's FDI, it is by no means the country's leading trade partner. The table below highlights China's top ten trade partners for 2003, rank for 2002 and percentage change. Interestingly Germany and the Netherlands lead the way for Europe, with France and the UK not making the top 10. This is perhaps surprising; given the UK and France are the world's 4th and 5th leading economies. The trade between the UK and China was valued at \$11.4 billion in 2002 (Xinhua News Agency, April 21st, 2003).

Table 3.1: China's Top Trade Partners (\$ million)

Position	Country	2003	% change	Rank 2002
1	Japan	133,573.4	31.1	1
2	United States	126,334.4	30.0	2
3	Hong Kong	87,407.7	26.3	3
4	South Korea	63,231.1	43.4	5
5	Taiwan	58,367.0	30.7	4
6	Germany	41,876.3	50.7	6
7	Malaysia	20,127.8	41.0	7
8	Singapore	19,352.3	37.9	8
9	Russia	15,760.6	32.1	9
10	Netherlands	15,438.7	44.6	10

Source: PRC General Administration of Customs, China's Customs, Statistics (taken from the US-China Business Council / www.uschina.org/statistics/tradetable.html)

FDI attracted to China is generally in the form of direct investment and in other forms as well. There are an increasing number of different forms of investment in China, but the IJV continues to be a popular method. For several years now, foreign multinational corporations have continued to use the IJV as a vehicle for foreign direct investment (Geringer 1991, Parkhe 1993).

The majority of existing Foreign Investment Enterprises (FIE's) are joint ventures, and many new entrants continue to join with local partners either by choice or by coercion (Rosen, 1999). For the purpose of this project, only relationships between those companies involved in Western-Chinese joint ventures will be analysed. The Western partner being predominantly U.K. based. With the gradual knowledge accumulating in the West about how to do business in China and the rapid proliferation of Chinese joint ventures in the past decade, a greater interest in the implementation of joint ventures can

be expected (Yan and Gray 1994). Child (1991) notes the rapid growth of equity joint ventures in China present a challenging opportunity to study international alliances.

Narrowly defined, a joint venture occurs when two or more firms pool a portion of their resources within a common legal organization (Kogut, 1988). A joint venture is international if at least one partner has its headquarters outside the ventures country of operation or if the joint venture has a significant level of operation in more than one country (Geringer and Herbert, 1989). Williamson (1975) identifies 3 primary motives for the establishment of JVs 1) existence of net benefits from internationalizing a market 2) economic indivisibility 3) disadvantages to merger. Houdard (1998) discusses similar advantages, but in greater detail. These include: access to existing market share, customer contracts, established sources of inputs, shared investment risk and the ability to depend on an established and tested set of rules and laws.

IJVs between Western and Chinese firms continue to experience high failure rates. Lack of understanding of each other's approach to business practice can lead to conflict between firms. Datta (1988) identifies differences in management paradigms, cultures and experiences as influences, which can create difficult managerial dynamics within a joint venture. Given the growing paradigm shift in marketing towards relationships, particularly in business markets, where many business partners now focus on a collaborative approach, it is important for international companies to be aware of the differing concepts and approaches to business relationships and networks. These relationships at an individual level are something not exclusive to China. In the UK, the 'old boy network' and personal links play an essential role in business practice. It is important to understand these relationships, as imminent entry into the WTO can only increase the number of joint ventures between UK and Chinese firms. (British Business in China 2000) state the two main forms of joint venture in China are an equity joint venture (EJV) and cooperative joint venture (CJV). These account for 43% and 11.3% respectively of all FDI, whilst 45.7% are wholly foreign owned enterprises (WFOE) (MOFTEC, Oct 1997). WFOEs have seen an increase in recent years; this is largely due to government tax incentives and

foreign firms wanting to have greater control. Certainly many of the large multinationals who have been in China for several years started out using a joint venture, and are now using WFOE as their preferred market entry method. Given the focus of this study are primarily based on relationships between UK and Chinese firms; obviously the joint venture is a favoured method for analyzing business relationships.

The EJV remains a popular method of market entry for foreign companies. This form of joint venture requires joint investment from both parties. Enterprises in this category have the characteristics that all the parties participating in the joint venture jointly offer investment in it, jointly operate it, share the risks of it in accordance with their different proportions of investment, and are jointly held responsible for the profits and losses of it. Usually the equity stake by the foreign partner is not lower than 25%. For companies looking to access a large share of the Chinese market, the establishment of multiple equity joint ventures provides a means for obtaining the connections necessary for doing business in China (Houdard, 1998).

The other type of joint venture is the CJV. This differs from equity joint ventures in that they usually have a profit sharing mechanism that differs from equity ownership. Contributions from the Chinese side are usually the same as in equity joint ventures. According to Moser and Bennet (1998) the reasons for choosing a cooperative joint venture include: less need to formally value capital contributions, ability to recover capital prior to termination, more flexible profit sharing arrangements and greater freedom in management structure.

The majority of joint ventures involved in this research are EJVs. They provide an interesting insight because level of equity stake may have an impact on the IJV relationship. For example, a 50/50 agreement may prolong decision-making, leading to possible conflict between partners. Many IJVs try to overcome this problem by ensuring suitable representatives from both parties at board level. The rest of the sample is made up of CJVs. The majority of research into IJV performance in China does not distinguish

between types of JV (see Yan and Gray, 1994; Geringer and Herbert, 1989). Details of the entry method (more specifically equity stake) will be highlighted for cases in the qualitative study.

Will the type of IJV have an impact on performance? Although this research does not address this question, evidence suggests that the amount of equity stake in an EJV can have a major impact on decision-making. For example, 50/50 EJVs usually have problems arriving at a decision because neither has an overriding investment. Similarly a greater number of parties involved can also cause delays. There are two reasons why this question has not been addressed. First, analyzing performance purely on the basis of CJV/EJV is too simplistic. CJV's may contain specific information as part of the contract making it more favourable to one party or the other. Second, it is very difficult to gather information on the amount of equity stake, as well as partner and JV contract details.

Foreign investors considering using the IJV method of entry need to be aware of the following legislation:

1. 'The Law of the People's Republic of China on Joint Venture using Chinese and Foreign Investment (adopted by the Second Session of the fifth National People's Congress on July 1, 1979 and Promulgated on and Effective as of July 8, 1979)
2. 'Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures (adopted on April 13 1988 at the First Session of the Seventh National People's Congress)
3. 'Decision concerning the amendment to the Law on Sino-Foreign Joint Ventures (adopted by the Third Session of the Seventh National People's Congress on April 4, 1990)

The first piece of legislation in accordance with China's open door policy places great emphasis on the foreign partner to provide investment that benefits China. (Article 5) *The*

technology and the equipment that serve as a foreign joint ventures investment must be advanced technology and equipment that actually suits our countries needs'. The same article stresses serious consequences if this is not undertaken *'If the foreign partner joint venture causes losses by deception through the intentional use of backward technology and equipment, it shall pay compensation for the losses*'. This is an interesting statement in that it moves away from the traditional Chinese concept of 'personal trust' to one of 'systems trust'. In other words, trust is supported by the contract.

Arguably the (1990) amendment to IJV law is more favourable to foreign investors than the original (1979) version in that it allows greater scope for flexibility. An example is the amendment to paragraph (1) of Article 6 to include: *'The Chairman and the vice-chairman or vice-chairmen shall be chosen through consultation by the parties to the venture or elected by the board of directors. If the Chinese venture or foreign venture assumes the office of the chairman, the other venture shall assume the office(s) of vice-chairman or vice-chairmen*. This is a major change to the (1979) law that states the joint venture must have a chairman *'whose office shall be assumed by the Chinese joint venture(s), and one or two vice-chairman, whose office(s) shall be assumed by the foreign joint venture(s)*'. The option to appoint a Chinese or Western chairman is likely to be of benefit to the foreign party. A Western firm may wish to elect a chairman internally that has a wealth of international business experience, thus applying Western business practice to the IJV. However, the Chinese partner may not warm to the idea of having a foreign chairman, largely due to the difficulty in controlling their Western counterpart, language and cultural differences. As China continues opening up its markets inline with WTO regulations, it is likely further concessions will be made to IJV regulations. Particularly as an increasing number of foreign multi-nationals are looking at alternative modes of entry i.e. WFOE.

3.3.1 Performance and IJV success factors

Tong Chuang yi Men, “same bed, different dreams.”

This old Chinese saying was used to describe the business relationships between Western companies and their Chinese partners (Mann, 1989). Arguably the phrase is still relevant today when referring to strategic objectives between IJV partners.

Through joint venturing partners achieve strategic objectives that they otherwise are not able to achieve independently (Harrigan, 1986). One reason why so many joint ventures lead to conflict and possible dissolution is due to a difference in strategic objectives between the Western and Chinese firm. Joint venture partners from western countries see China as a long-term strategy, not expecting to generate profit over night. Above all, the huge population (1.3 billion), as well as gaining access to local market knowledge from their Chinese partner are seen by many firms as primary reasons for establishing a joint venture. Since China's open door policy, larger organisations have been clambering to become the 'first in'. Unfortunately, heavy involvement from local government, combined with a different agenda from the Chinese partner makes achieving these strategic objectives all the more difficult.

For many Chinese firms, their objectives are acquiring new technology and access to foreign exchange (Yan and Gray, 1994). An excellent illustration of this is from Jim Mann (1989) and his book 'Beijing Jeep':

“ The Americans were important to Beijing jeep not so much for their Cherokees or their knowledge of sales and markets, but because of the technology and modern equipment they brought. The Chinese could have lived without the Cherokee, but they were eager, indeed desperate, for the tools, equipment, and techniques the Americans used to manufacture it.”

Mann, Jim (1989) *Beijing Jeep: A case study of Western Business in China*, Westview Press, Oxford, pp.256.

Measuring performance in joint ventures is somewhat problematic because measurement can be based on a number of different factors. For example, whose perspective is performance based on? This could be one parent, two parents, joint venture managers, or departments within the joint venture. There is also the question of financial and non-financial performance factors. Measures could be based on different stages of development of the joint venture. While there have been several research efforts on joint venture performance which sought to identify success factors, there has been considerable disagreement as to the comparability of alternative joint venture performance measures (Hatfield *et al.* 1998). As a result, there is no consensus on the appropriate definition and measurement of joint venture performance (Parkhe, 1993).

Beamish (1987) used satisfaction of the joint venture as a form of measurement. Geringer and Herbert (1991) found duration and survival to considerably correlate with overall partner satisfaction. They also considered the influence of national culture on performance evaluation. They state that agreement on an EJV's performance between its parents may be influenced by the national cultural similarity among them. Where there are national cultural dissimilarities, this may lead to differences in the partners' perceptions of each other and the EJV and result in a lower degree of agreement regarding EJV performance. In contrast, similarities in national culture will tend to produce a greater agreement among the parents regarding the venture's performance. Geringer and Hebert's statistical analysis of their Canadian sample supported these arguments: correlations between partners' assessments of specific aspects of EJV performance were significantly positive as well as being stronger for partners where there was a cultural similarity.

Another well-documented topic in relation to IJV performance is control (Geringer and Herbert, 1989; Yan and Gray 1994 and Glaister, 1995). Control refers to the process by which one entity influences, to varying degrees, the behaviour and output of another entity through the use of power, authority, and a wide range of bureaucratic, cultural, or

informal mechanisms (Geringer and Herbert, 1989). Given the wide-ranging research into control and IJVs, control will not be addressed in this study.

For this research, the development of a list of strategic objectives will be based on open questions from a survey sent to predominantly UK parent company managers. Yan and Gray (1994) developed a list of strategic objectives based on interviews and surveys with U.S. and Chinese partners, although it is unlikely U.S. objectives will differ to UK firms, an inductive approach may produce differences which would otherwise not have been highlighted. Measurement of performance will be based on fulfilment of strategic objectives. In line with work by Schaan (1983, 1988) and others, joint venture performance is determined by whether each partner assesses that it has achieved its strategic objectives. Support for partner goal achievement as a preferred joint venture performance measure is bolstered by the fact that the use of traditional financial performance measures is frequently foreclosed by a lack of available data and by the need to measure achievement of non-financial objectives (Hatfield *et al.* 1998). Some of the joint ventures chosen are in the early stages of development; therefore the ability to generate profit is very much a long-term strategy and is unlikely to be a short-term strategic objective. Also, comparison can be made with both parent companies to see if they share the same strategic objectives.

While there have been several research efforts into joint venture performance. A number of authors have highlighted the high failure rate amongst IJVs. Reported joint venture failure rates range from 36 to 70% (Killing, 1983). Gomes-Casseres (1987) identified several "adaptive" reasons for joint venture termination: dissolution due to partner's acquisition of new capabilities, growth in a partner firm's network that leads to a change in the optimal ownership structure to exploit economies of scope, and government policy changes. Harrigan (1985) argues that alliances are more likely to succeed when partners possess complementary missions, resource capabilities, managerial capabilities and other attributes that create a strategic fit in which the bargaining power of the partners is evenly matched. This study focuses upon successful joint ventures in the sense that they currently

exist and aims to derive indicators of success from the sample.

3.4 External Influences on International Joint ventures

Although Chinese culture affects the functioning of organisations in China, it is not independent of macro-environmental factors (Lockett, 1988). A firm should be fully aware of existing and potential external influences on its business. Given the potential pitfalls facing UK firms entering China, research into the potential influences is vitally important. Major influences include political and to a growing extent legal factors. Market conditions (see below) are also a key factor determining possible success. Many of the industries previously restricted to foreign investors are now gradually opening up as per China's WTO commitment.

3.4.1 Market conditions

The Chinese market holds many potential difficulties for Western firms. Ruggles (1983) stresses the importance of understanding the Chinese business environment. The author divides environmental characteristics into 3 categories:

- *Institutional* – these include aspects of the business environment which stem from Chinese government policy, organization and process. It is well known the Chinese government has a huge influence on Chinese people's everyday lives. The same applies to the business environment. Chinese government organizations (state owned enterprises), along with high levels of bureaucracy require patience and understanding even for the most experienced multi-national company.
- *Structural* – These factors include the logistical, physical and human resources on which a foreign venturer must rely in order to achieve his business objectives. For example, the Chinese partner in a Chinese-Western IJV may provide the land and labour. It is important for the foreign investor to understand the implications of using a local workforce, particularly with regard to differences in management and corporate culture.

- *Regulatory* – This involves the rules, laws and guidelines. The majority of which have been developed since China's 'open-door policy' in 1979. China continues to develop its legal system inline with accession to the WTO. Any foreign company entering the market needs to be aware of the fast paced legal environmental change.

The nature of the industry and market entry point plays a large factor in determining the extent of these difficulties. For example, in the West of the country, the Chinese government actively encourages foreign direct investment. An example of this is a 4,200km pipeline development. The 'West-East' pipeline will carry gas from the poor Western province of Xinjiang to Shanghai on the prosperous East Coast. Shell (UK) is contracted to build the multi-billion dollar pipeline as an IJV with Petro China, in a consortium with U.S. oil firm Exxon-Mobil and Russia's Gazprom. This is due to the imbalance of investment. The majority of which is concentrated in the East and South of the country – Guangzhou, Shanghai and Beijing. Given China's accession to the WTO towards the end of 2001, many Western firms should experience a relaxation of Chinese regulations. The majority of these will be phased in during the next five years. However, instances of protectionism still take place.

Although the Chinese government is investing billions of dollars into cleaning up the natural environment, especially in Beijing (in time for the Olympics), parts of China continue to suffer from environmental abuse. China already contains nine of the world's ten most polluted cities. A primary cause of this pollution is the country's heavy reliance on coal as its main source of energy. The impact China's environmental issues have on Western – Chinese joint ventures largely depend on the industry. For example, companies involved in alternative forms of energy e.g. wind power, may see China as an opportunity. Where as firms involved in more traditional methods of energy production, may suffer as a result of increasing government environmental controls. Water shortages, a common occurrence in parts of Northern China, have the capacity to affect all firms in the region.

This may result in the company having to rethink its distribution strategy. A more serious scenario would be disruption to the workforce affecting levels of production.

3.4.2 Political / legal factors

China remains a communist state, although it has embraced capitalism enthusiastically, particularly with regard to its economic reforms. The state president, Hu Jintao, and the premier, Wen Jiabao, were appointed in March 2003. They look set to continue economic reform, laid down by Deng Xiaoping, and more recently Jiang Zemin. This maybe good news for potential foreign investors, but the Chinese government has some work to do in helping state owned enterprises handle the transition into companies that are able to compete with their foreign partners. To their advantage is an economy that looks set to continue its phenomenal growth, with GDP growth forecast at 8.4% in 2004, easing to 7.8% in 2005 (Economist Intelligence Unit, 2004).

Since China's open door policy during the late 1970's, the UK was left with the problem of how to handle Hong Kong. Hong Kong and the political climate were widely regarded as a burden to UK companies aiming to win contracts in China. Now the Hong Kong issue has passed, UK firms have more of a 'level playing field' with other countries.

Since China is undergoing massive reform, it can be difficult for a Western firm to keep track of the constant changing political and legal factors. Xin and Pearce (1996) describe China as a planned economy characterized by a weak capital market structure, institutional instability and poorly specified property rights. The latter is a major issue for foreign firms entering China. Developing a global brand involves huge investment. Poor enforcement of intellectual property rights (IPR) not only results in companies losing sales to cheaper imitations, but also it can damage the products brand equity and image. Fake products and trademark violations are rife in China. However, since China's accession to the WTO the Chinese government has cracked down hard on IPR infringement. The following extract from Beijing Today (Beijing newspaper) 23rd Aug 2002 is evidence of stricter controls:

' A Chinese motorcycle maker has been fined about \$110,000 for pirating trademarks belonging to Japan's Yamaha conglomerate, a lawyer for Yamaha said on Thursday. The ruling by the Tianjin People's High Court earlier this month, also requires the Tianjin Gangtian Group to apologize to Yamaha and remove the trademark name from their products.'

The sentence in the Yamaha case is one of the highest of any pirating cases in China. The fine probably reflects a very small percentage of lost sales to Yamaha as a result of IPR infringement.

An example of a British joint venture in China experiencing problems with IPR in China SSL plc (formerly London International) who produces Durex condoms in Qingdao, Shandong Province. Although marketing condoms in China is very difficult due to government restrictions, the company is experiencing considerable success. Durex has experienced a growing market share. In terms of the branded market, they have about 22%. In Guangdong Province and Beijing they have about 25%. In some areas of Guangdong, like Guangzhou, Shenzhen and Dongguan they have about 40% market share. One of Durex's local competitors is a brand called Jessbon. SSL plc is currently suing Jessbon for copying some information about Durex from their company website and claiming it as their own.

When considering entering China, UK firms need to assess the political risk. Political risk can be defined as: 'uncertainty that stems in whole or on part, from the exercise of power by governmental and non-governmental actor's (Zonis, 2000). Political risks can be classified into two broad categories, 'macro-political' and 'micro-political'.

1. Macro-political risks – these affect all firms in a country e.g. higher levels of inflation or taxation. An example for Western firms in China is the recent strict hygiene regulations concerning the SARS outbreak. Controls were particularly tight in Guangzhou and Beijing.

2. Micro-political risk – affects only specific firms, industries or types of cultures. This could be new regulations or specific taxes on certain industries. For example, China actively encourages investment from Hi-tech firms, where as food producers may not enjoy the same benefits.

A vital aspect of doing business in China is that permission to conduct business is controlled by the government. The host government controls and restricts a foreign companies activities by encouraging and offering support or by discouraging and banning its activities, depending upon the interests of the host. As China is a developing country, a sudden change in policy could seriously affect a firm's business environment. Political instability arises from political risks of doing business in China.

A common problem for Western firms entering China is understanding which aspect of government is the most important: central government in Beijing or the local government where they plan to invest? This dilemma is best illustrated by Carrefour, the French retail giant:

Carrefour entered China in the mid-1990's, one of the first foreign retail companies to do so. Within the first five years the company had opened 27 supermarkets and leapfrogged domestic competitors to become the second largest chain store in China. However, competitors suspected business irregularities and complained to the authorities. Findings established Carrefour had established close ties with local authorities in each of its store locations, but had ignored government regulation that required it to win Beijing's approval for every shop it opened. Consequently the company received mild punishment in the form of missing licenses and a short-term freeze on expansion plans. This was largely due to lobbying Beijing by local authorities, keen to preserve the contribution Carrefour was making to their local economies.

Source: adapted from: Kynge, J (2002)'Its as much about buying as selling' The Financial Times, Dec 12, p5

Cooke (2005) comments on the changing relationship IJVs have with local government. While local government officials had strong administrative power to influence the conditions in which MNCs and IJVs operated from the early 1980's until the mid 1990's, the bargaining power has been steadily swinging towards MNCs and JVs since the late 1990's. (Cooke, p.191)

Another aspect of China's legal environment is the relevance of the contract. Unlike in western society, the contract China does not carry the same significance. Increasingly, this is changing as China progresses through its legal reform inline with WTO entry. However, at the personal level, many Chinese still rely on relationships '*guanxi*' and trust '*xinyong*' when conducting business. Perhaps evidence of this is the global success of overseas Chinese. For example, in the UK, 70% of ethnic Chinese work in the catering business. Formal contracts are not likely to be effective in this special environment (Calantone and Zhao, 2000).

3.5 WTO Accession and Changes to operational modes

Since 1997 WFOEs have exceeded IJVs to become the favoured market entry method for foreign firms entering China. Factors such as Chinese partners competence, joint venture management control, and frustration from IJV failure examples, have been cited as reasons why a strict adoption of WFOE for conducting business in China might be preferable (Yan and Warner, 2001). There are two key reasons for this. First, changing government policy towards foreign investment. Second, established foreign firms not perceiving any value through having their JV partner are now considering doing business independently. The IJV entry method will continue to be an attractive form of entry for SMEs, however, larger companies already firmly established, or those considering entering for the first time, are more likely to opt for mergers, acquisitions or WFOEs.

When the first Sino-foreign joint venture, the Beijing Aviation Food Co., was established in 1980, it led to the beginning of intensive FDI into China. The huge foreign investment

has contributed to China's continuous of growth in the region of 8% every year for the last 15 years. WTO entry will lead to a surge in FDI in forthcoming years. Combine this with Beijing hosting the Olympics in 2008 and a population of nearly 1.3 billion; it is evident why so many foreign firms are hurriedly trying to gain a presence in China. With Chinese people holding savings of more than US\$1 trillion, nowhere is this more apparent than the finance sector.

As mentioned, to foreign investors there exist three modes of foreign entry – equity joint venture (EJV), cooperative joint venture (CJV) and wholly foreign owned enterprises (WFOEs). In recent years the favoured mode of foreign has changed from EJV to WFOE. Why should this be the case? What will the impact of China's WTO entry have on Western firms existing investment vehicle as well as those considering the market?

The research into why WFOEs replaced EJVs as the most popular means of entering China has received limited attention from researchers. Deng (2001) identifies three key factors driving foreign firms to choose WFOEs: (1) the disappointing performance of too many EJVs, (2) the inherent advantages of WFOEs, and (3) changes in government regulations and a less uncertain environment. Yan and Warner (2001) suggest as foreign companies keep acquiring practical experience in China, they are increasingly likely to 'go it alone' to pursue success in the China market. They go onto argue that although China's WTO entry appears to favour WFOE formation, the situation can be multi-faceted. Reasons why a WFOE may not be appropriate include the nature of the industry and geographical region. The Chinese government is actively encouraging foreign companies to invest in its Western regions. Western cities such as Kunming are far less developed than Shanghai, Guangzhou and Beijing. A major stumbling block for foreign companies entering western regions is the lack of government experience of handling FDI. Given this situation, initially a JV may be the preferred option.

Luo and O'Connor (1998) evaluated the structural changes of FDI in China and concluded that foreign companies gradually increased their resources and financial investment in

China. They described a number of diverse approaches used by companies to an increasing commitment – optimistic experimenter, strategic investor and dominant local player. Opportunistic experimenter is an approach of a group of foreign companies with a low level of corporate commitment, who merely aimed to learn how to conduct business in China. Strategic investor is the approach characterizing the majority of foreign companies that have aimed to enjoy the early-mover benefits, possibly by building a broader multi-regional or national presence through marketing or establishing facilities. Finally, dominant local player describes companies with a high level of corporate commitment to investing in China.

The problems associated with IJVs in China have been well documented (Child, 1991; Bjorkman 1996). Harrigan (1986) states that ‘Alliances fail because operating managers do not make them work, not because contracts are poorly written’. One reason for foreign investors to shy away from EJVs is their fear of leaking proprietary technology and know-how to Chinese partners and thus losing long-term competitive advantages (Deng, 2001). To the Chinese partner gaining invaluable knowledge is a main strategic objective for entering into a JV. For the Western partner, the problem is knowing how much of their technical expertise should be shared with their partner. A key factor that allows for sharing information is the establishment of trust between parties. In Chinese culture, trust is very much built on personal relationships and involves socialising and working together in order to build trust. In Western society, trust between business partners is underlined by the contract, therefore there is likely to be less importance placed on building relationships. It is often very difficult to build trust between two companies that originate from very different cultural backgrounds. A Chinese partner may try to use their Western partners technology to their own advantage, thus acquiring for usage in new products or geographical markets.

However, the IJV can bring advantages to a foreign investor. Not least access to markets and *guanxi* (personal relationships already developed by their Chinese partner). *Guanxi* is one of the most important factors for business success in China (Yeung and Tung, 1996).

An example of a *guanxi* relationship is 'you scratch my back, and I'll scratch yours'. A *guanxi* relationship is private, informal, and mainly non-business orientated. It is a special relationship based on family or shared context for the purpose of exchange favour. Vanhonacker (1997) argues there are three key factors that may dissuade foreign companies from forming WFOEs in China. First, *guanxi* continues to be an important aspect of Chinese society. Second, as the Chinese generally do not want foreign companies to take advantage of China, questions about cultural and economic sovereignty may evolve. Third, WTO entry means opening up of different sectors, but in reality offering firms may find it difficult to develop their own distribution.

Abramson and Ai (1999) have suggested the Chinese have encouraged the use of joint ventures in China as a means for foreign companies to obtain local Chinese partners who are more familiar with, and skilled at doing business in the Chinese business environment.

Although WFOEs are increasing in popularity, it seems unlikely joint ventures will be abandoned altogether. This joint venture option still remains an attractive mode of market entry for SMEs. Unlike the large multinationals, they do not have the resources to invest in a WFOE. However, converting to a WFOE and/or becoming a WFOE remain an attractive proposition for many companies.

The increasing appeal of switching from a joint venture to a WFOE is not exclusive to UK firms. In their paper examining the appeal of joint ventures amongst six U.S.-Chinese JV's, Wong *et al.* (1999) discuss how some companies are considering the possibility of converting their joint ventures into WFOEs. The authors describe the reasons being: the US partner believes they have maximised the advantages of the former and are in a position to reap the benefits of the latter in terms of more effective management, greater control over resources and increased authority over the hiring and firing of personnel.

3.5.1 Duration of joint ventures

The UK's commitment to China has already been highlighted. However, those companies that opt for the IJV mode of entry are choosing an option that historically has a very high rate of dissolution. Many of the failures are very costly for the partner companies (Killing, 1982). Usually a joint venture contract is signed on the basis of 30 years. However, in reality, it is almost unheard of a relationship lasting the full 30 years. A number of authors have made recommendations to both Western and Chinese parties in terms of overcoming problems and contributing to success. For example, in his study into the management process of developing a Sino-UK joint venture, Rimington (1996) stresses the following are considered important:

- There should be a mature, reliable core product, having good market potential, using proven production technology.
- From the outset of the joint venture it should be recognised that a well-established Quality Management System (QMS) will result in high product quality and reliability and cost savings.
- There should be a continuous improvement approach with people responsible for their own processes and resultant products, with deployment of TQM.
- Ensure that project time scales are agreed and maintained by both parties.
- Allow plenty of time for planning and preparation of the introduction and implementation of the technology transfer stages.
- Seek out the most suitable partner who is willing and committed to a long-term relationship.
- Ensure that the product or service is something that the country urgently requires.
- Ensure that the people selected have the commitment and qualifications to develop the enterprise.
- Be persistent in your approach, as the Chinese bureaucratic systems will delay the decision making process. Negotiations between partners can take

a long time to finalize, so a high level of patience should be shown by the non-Chinese partner in order to develop a close relationship.

It appears the purpose of the joint venture is to allow objectives to be achieved for both partners. Once these have been achieved, there may no longer be perceived value for continuing with the relationship.

Child and Yuan (2003) found the longer the IJVs were in operation, the higher the evaluation of Chinese goal attainment (level of performance). The authors argue the longer an IJV has been operating, the more opportunity there will have been for its members to learn how to achieve congruence between partner goals, to establish a strategic profile for the venture, and to accommodate cultural and other partner – related differences. Joint ventures of longer standing tend to achieve better performance (Harrigan, 1988).

Killing (1982) in his paper ‘How to make a Joint Venture work’ describes how a joint venture can change over time:

- *‘ The degree of each partner’s reliance on the others skills can change over time, sometimes eliminating the need for a shared management joint venture – or for any joint venture at all’.*

Killing found representatives of 13 of the 19 parent companies in the study stated that, at the time their ventures were formed, they could not have carried out the task without their partner’s help. By the time the study was finished, however, only 6 still felt that this was true. On the basis of this study, it appears that IJV partners can acquire and adapt to each other overtime. Learning from each other may result in elimination of the need for shared management; however, it can also lead to increased trust and commitment. In Chinese culture, personal trust develops over time. It involves ‘getting to know’ a partner. Past experience between partners is important because it can help develop close relationships built on trust and commitment. Subsequently, when measuring IMP and Chinese cultural values, duration of the partnership is crucial when establishing the relationship. Setting up

an IJV in China can be a very time consuming process for a foreign company. It may involve several trips to China, a great deal of negotiations and above all learning (both organizational and cultural). The longevity of the IJV is crucial in terms of the state/stage of the relationship and to judgements about performance. The impact time has on the relationship is recognised in this study by including IJVs based on varying time frames.

CHAPTER FOUR: METHODOLOGY

4.1 Introduction

This chapter will detail the methodology used in this study to demonstrate how the objectives will be answered. The data gathering should achieve the following:

- Allow an understanding of why the Western parent wanted to establish the joint venture (strategic objectives)
- Determine to what extent have these objectives been achieved
- Examine how exchange episodes may impact joint venture performance
- Learn how different constructs and cultural values in these relationships may affect joint venture performance

4.2 General overview of research design

Kerlinger (1986:279) defines a research design as follows:

A research design is a plan, structure and strategy of investigation so conceived as to obtain answers to research questions or problems. The plan is the complete scheme or program of the research. It includes an outline of what the investigator will do from writing the hypotheses and their operational implications to the final analysis of data.

The research method for this study is exploratory. It combines two principal methods of data collection. First, qualitative research was chosen to create a holistic picture of the possible impact of interaction constructs, exchange episodes and cultural values on IJV performance. This was in the form of an interview/case study. In addition to the qualitative approach, a subsequent quantitative research consisted of a questionnaire survey to allow for a quantitative exploration of the performance criteria identified during the first stage (Child, 2002). This approach follows that of Glaister and Buckley (1999). The author

conducted a set of semi-structured interviews with a senior manager from each of eight UK partners in order to help shape the form of the final questionnaire. This approach, known as triangulation has several advantages when conducting complex research. Denzin (1970) defines triangulation as ‘collecting information from a diverse range of individuals and settings, using a variety of methods. Easterby-Smith, Thorpe and Lowe (1991) identify four types of triangulation:

- *Data triangulation*, data is collected at different times or from different sources in the study of a phenomenon
- *Investigator triangulation*, where different researchers independently collect data on the same phenomenon and compare the results
- *Methodological triangulation*, where both quantitative and qualitative methods of data collection are used
- *Triangulation of theories*, where a theory is taken from one discipline and used to explain a phenomenon in another discipline

A triangulation approach to data collection was used as this reduces the risk of chance associations and of systematic biases (Strauss, 1987). Studies that use only one method are more vulnerable to errors linked to that particular method (e.g., loaded interview questions, biased or untrue responses) than are studies that use multiple methods in which different types of data provide cross-data validity checks. Dexter (1970) argues that ‘no one should plan or finance an entire study in advance with the expectation of relying chiefly upon interviews for data, unless the interviewers name enough relevant background to be sure that they can make sense of interview conversations. Also, unless there is a reasonable hope of being able to hang around or in some way observe so as to learn what it is meaningful and significant to ask’.

Given that research into IJV performance has received greater attention in recent years, it is important to ensure that this study contributes to the existing literature. Robson *et al*

(2002) are critical of many existing studies into IJV performance. The authors argued that studies often lack:

- 1) A sound framework that would yield a comprehensive set of both determinants and indicators of IJV performance.
- 2) Fail to contemplate the various theoretical perspectives.
- 3) Define, operationalise, and categorise IJV performance determinants in different, and sometimes contradictory, ways.
- 4) Are conducted in isolation, leading to a fragmented body of knowledge.
- 5) Fall short of connecting empirical findings to a rigorous future research program.

In order to address the above issues it is important to provide a clear discussion on the methodological approach adopted for this study. Therefore, the first section of this chapter will address the qualitative part of the research, while the quantitative approach is discussed in the second section. The chapter concludes by tackling issues of reliability and validity, cross-cultural matters, internal measurement issues and is completed with the addition of a data analysis plan.

4.3 Qualitative study

When undertaking qualitative research, it is the nature and content of what is said – its meaning – rather than the number of people who are saying it, or the frequency with which it is said, which matters’ (Jankowicz, 2002, p.127). In his 1999 paper entitled ‘Cross-cultural research issues’ Hunter stresses the importance of qualitative research techniques when conducting cross-cultural research as it allows the consideration of the following issues:

- 1) A qualitative approach allows for a more in-depth investigation of the subject. Thus the researcher becomes more involved in the research in order to attempt to understand how a situation is being interpreted.

- 2) Given the in-depth involvement of qualitative research, the researcher must guard against researcher bias into the data gathering and subsequent analysis.
- 3) Qualitative research allows the research participant to decide on the content and descriptive nature of the response to the researcher questions. This may allow new ideas to be discussed or different understanding to be documented by the researcher.

The author goes onto argue that by adopting this approach will ground the data within the culture of the research participant. Thus allowing subsequent analysis to be based on the content of the comments initiated by the research participant.

This research project focuses on the inter-partner relationships in Western-Chinese joint ventures. It is predominantly based on the Western parent company perspective. The empirical research approach applied in this study follows the case-study method, which is commonly used to study complex phenomena in their real-life contexts (Yin 1989). The present study aims at deeply understanding and better interpreting the subject phenomenon in a specific setting through an embedded multiple case study (Yin, 1989, p. 46). The case study approach was adopted, as this is a useful method for a research problem that requires the analysis of constructs such as trust, commitment and conflict. Case studies aid the researcher in generating answers to the question 'how' and 'why' (Yin, 1989; Robson, 1993).

The empirical analysis involves those Western parent company managers involved in establishing and/or involved with operations in Western-Chinese joint ventures. The firms selected come from a variety of industries and joint ventures established over different periods of time and located in various cities in China. Qualitative data collection was conducted through interviews and archives. An interview is defined by (Kahn and Cannell, 1957) as 'a purposeful discussion between two or more people'. Types of interviews are commonly divided between: structured, semi-structured and unstructured (Saunders *et al* 2000). The type chosen for this research is semi-structured.

4.3.1 Qualitative study (sampling)

The sampling frame for any probability sample is a complete list of all the cases in the population from which your sample will be drawn (Saunders *et al.* 2000). Unfortunately, no suitable lists exist of all Western-Chinese joint ventures. Therefore a sampling frame was compiled using a variety of data sources. These include: Doing Business in China, China-Britain Trade Group, China-Britain Business Council (London), U.S. Business Council, Beijing, Foreign Companies in China, the Almanac of Foreign and International trade in China and information on UK investment in China provided by the British Embassy in Beijing. All of the data provided is taken during the last four years and is drawn from a variety of sources to ensure the sampling frame is unbiased. Developing a suitable sample size can be problematic for joint venture researchers. Shenkar (1994) cites two main problems in respect of publications on joint ventures. First, large-scale studies tend to be aimed towards the business community; therefore they are usually priced well beyond the means of the academic researcher. Very often, they are not even published! So, most of the joint venture studies in China take the perspective of the foreign parent company exclusively. He goes on to suggest this may lead to a bias account. However, Geringer and Herbert (1989) showed a significant positive relationship between the assessment of the HQ respondents and the assessments of the representative of the respective partner firm in the JV, thus researchers might use either. Although, this research is predominantly based on the Western parent perspective, it is hoped elements of bias have been overcome by adopting both an etic and emic approach.

Purposeful sampling was used to select the twenty-one case study firms for qualitative research (twenty Western companies and one Chinese company). Again, it must be noted that only existing joint ventures were considered. 'Failures' will not allow for performance measurement. This is a strategy in which particular settings, persons, or events are selected deliberately in order to provide important information that can't be gotten as well from other choices (Patton, 1990). Purposeful sampling is used so as to select a sample

deliberately in order to examine cases that are critical for the theories that you began the study with, or that you have subsequently developed (Maxwell, 1996). This certainly applies in the case of the only Chinese parent firm interviewed for the study. Obviously, a leading senior figure in one of China's major financial institutions is critical in terms of the findings relating to joint venture performance issues from a managerial and theoretical perspective. This approach was used, as in many instances it proved difficult in gaining access to sufficient numbers of interviewees.

The majority of Western firms chosen are of British origin. It must be noted that the reason for this is because these may provide an interesting insight as to why China remains an increasingly popular market for Europe's leader investor. Also, findings help to 'fill the gap' into IJV performance involving British companies. Much of the research conducted in this area has been predominantly based on U.S. companies.

Selection was on the basis of location, age of the IJV, industry and willingness to cooperate with the research. In some instances companies permitted multiple-interviews. Therefore, a total of 25 interviews were conducted, to gather data on the 21 case studies. The unit of analysis was each joint venture, although this was taken from the parent company perspective.

Where possible, interviewing more than one manager within a Western parent firm was carried out, as it may provide additional interesting empirical data (*see table 4.1 for details of interviewees*). More than one perspective on each IJV can be used to increase confidence in the findings (Beamish, 1993). However, where one respondent from a parent company is used, on the whole it is likely they will provide reliable data. In their study into Canadian and U.S. joint ventures, Geringer and Herbert (1991) found the appropriateness of using a single respondent for collecting performance data seemed to receive support from the Canadian study's results.

The same authors argue for circumstances where pursuit of respondents from more than one of the entities in an IJV represents an impossible or extremely difficult proposition, use of a single respondent per IJV appears to allow researchers to obtain fairly reliable data for overall IJV performance. Reliance on a single parent company respondent as a data source appeared to be a justifiable option when the respondent represented one of the key stakeholders.

Given the high commercial sensitivity of the issues raised in this study the majority of respondents expressed a wish to enforce confidentiality.

Table 4.1 *Details of parent company interviewees (inc x 1 Chinese**)*

Number	Interviewee Position	Equity Stake	Industry	Location of IJV
1	Director	25%UK / 75%Chinese	Food and agriculture	Nanjing
2	Group Marketing Manager	CJV	Building materials	Wuhan
3	Chairman	CJV	Electronics	Beijing
4	Managing Director	50% UK / 50% Chinese	Chemicals	Wuhan
5	Director	CJV	Telecommunications	Shanghai
6	Deputy General Manager	50% UK / 50% Chinese	Chemicals	Fuzhou
7	Finance Manager	49% UK / 51% Chinese	Transportation	Qingdao
8	General Manager, Asia	50% UK / 50% Chinese	Transportation	Shanghai
9	General Manager	65% UK / 35% Chinese	Building Materials	Shanghai
10	General Manager	49% UK / 51% Chinese	Transportation	Qingdao
11	Marketing Manager	45% UK / 55% Chinese	Resources	Beijing
12	Executive Director	55% UK / 45% Chinese	Mis Indus equip	Shanghai
13	Head of Sales & Marketing	67% UK / 33% Chinese	Electronics	Baoying
14	Director of International Trade	CJV	Retail	Shanghai
15	General Manager	45% UK / 55% Chinese	Transportation	Beijing
16	Managing Director	60% UK / 40% Chinese	Consultancy	Beijing
17	General Manager	55% UK / 45% Chinese	Misc Indus equip	Shanghai
18	General Manager	50% UK / 50% Chinese	Chemicals	Wuhan
19	General Manager	50% UK / 50% Chinese	Medical	Qingdao
20	Business Dev Manager	CJV	Engineering Services	Beijing
21	General Manager	CJV	Consultancy	Beijing
22	General Manager	50% UK / 50% Chinese	Chemicals	Shanghai
23	General Manager	CJV	Electronics	Yunnan
24	Director**	66% Chinese / 44% UK	Banking	Beijing
25	Finance Manager	50% UK / 50% Chinese	Chemicals	Shanghai

4.3.2 Qualitative study (Data collection)

Interviews were held face-to-face, although for logistical reasons three were conducted via telephone. Obviously, this resulted in a lack of non-verbal analysis for the telephone interviews; however, each interview was taped and transcribed so as to allow for in-depth qualitative analysis. Each respondent was telephoned prior to the interview. This was undertaken to ensure the respondent's position met the criteria of the research. The reason only one Chinese parent manager was interviewed is because of the great difficulty in accessing individuals involved in the IJV from the Chinese side. Clearly having good '*guanxi*' makes it easier for a researcher to access appropriate individuals. Developing *guanxi* is even more difficult for foreign researchers in China. In this case, rather than using students to supplement the Chinese respondents, the research is mainly based on the Western parent company perspective. Also, the case study in relation to the Chinese parent company is based on a director of one of China's leading Bank's. A major figure from China's leading financial institution provides some critical feedback relating to IJVs in China. This is both significant from a Managerial and theoretical perspective.

Although in-depth (unstructured) interviews are very helpful in discovering new insights (Robson, 1993), they are difficult to apply when interviewing non-native speakers. Also, using the same questions allows for easier comparative analysis between respondents. Interviews were conducted on a one-to-one basis, with managers responsible for establishing, and/or operations with the joint venture. These were held in the presence of a Chinese translator for ethnic Chinese managers. It is worth noting that the translator was very rarely needed during the interviews. Although most of the respondents were ethnic Chinese, they displayed very good command of English. Possibly the fact that they are working for Western parent companies involved in China, means speaking English is a prerequisite for the job.

Questioning techniques used involved a combination of open-ended, closed and probing questions. Open questions allow interviewees to provide an extensive and developmental answer and can be used to obtain facts and attitudes (Grummitt, 1980). If the open-ended question does not reveal a suitable response you can also probe the area of interest by using a supplementary question that finds a way of rephrasing the original question. Closed questions were used to establish exact facts and confirm an opinion. Altogether twenty-five managerial level persons were interviewed from Nov 2001 – July 2003. These individuals were selected on the basis of their involvement in the development of the Joint venture. To be able to conduct face-to-face interviews with managers in China, a six-week field trip was made to the country during July and August 2002. The crucial importance of these interviews is that they bring to the study Western and ethnic Chinese viewpoints and insights created in a Chinese cultural setting.

Each interview lasted between one and two hours, all were tape-recorded. The interviewees were asked to tell the story of the development of the joint venture operation and probed on the emic and etic constructs used to measure relationships. The collection of primary data focuses on some specific themes concerned with the relationship. These include cultural issues – *guanxi*, *mianzi*, IMP constructs and their impact on performance. Also, WTO entry and its implications for the joint venture were discussed. This form of interviewing technique allows the interviewer to discover information that perhaps would not otherwise have been learned using a structured method. All of the interviews were taped and transcribed. Each transcript was then e-mailed to the relevant respondent in order to seek their views on the accuracy. In some cases corrections were received from interviewees, however, these were generally simple matters that had been misunderstood. Also, taping interviews means data can be recorded word for word, thus overcoming the issue of interpreting one's own notes, leading to possible distortion of the data. A western researcher using notes and an interpreter is open to considerable interpretive bias (Fang and Kriz, 2000).

4.3.3 Qualitative study (measurement variables and issues)

It is recognised that many of the managers working for Western parent firms are ethnic Chinese. Also, the major Chinese bank involved in this study will be able to provide a useful insight into Chinese cultural values and their impact on joint venture performance. Therefore, this study focuses on Chinese cultural values as well as IMP constructs. These are analysed on a purely qualitative basis. There are two reasons for this. First, questions relating to Chinese cultural values produced a large number of non-responses in the pilot study. This may suggest that they are of a too sensitive nature. Second, interviewing may make the respondent feel more at ease; thus increasing the likelihood sensitive questions may be addressed. For example, a Finance Manager was willing to relay confidential information relating to cultural differences after a period of one hour, and only after the tape recorder had been switched off!

For the qualitative study, Chinese cultural values and IMP constructs were interpreted based on previous researchers. They include: *mianzi* (face), *guanxi* (personal connections), *xinyong* (trust) and *renqing* (reciprocity). Constructs were measured by categorising and analysing data from the semi-structured interviews.

Whilst Chinese cultural values have largely been based on the findings of previous researchers, it is worth noting there is very little research conducted into specifically *xinyong* and *renqing*. Several characteristics reinforce the concept of *guanxi*. However, the key drivers that have been identified as underlying this concept include *mianzi* (face), *renqing* (favours), and *xinyong* (trust) (Buttery and Wong, 1999). The majority of existing literature examining the Chinese concept of *guanxi* discusses it on the basis of one construct made up of these characteristics. However, Hutchings and Murray (2002) in their study of Australian organisations in China treated *guanxi*, *mianzi*, *xinyong* and *renqing* as separate variables by asking interviewees to comment on the importance of each one. This study recognises that *guanxi* is made up of *mianzi*, *xinyong* and *renqing*.

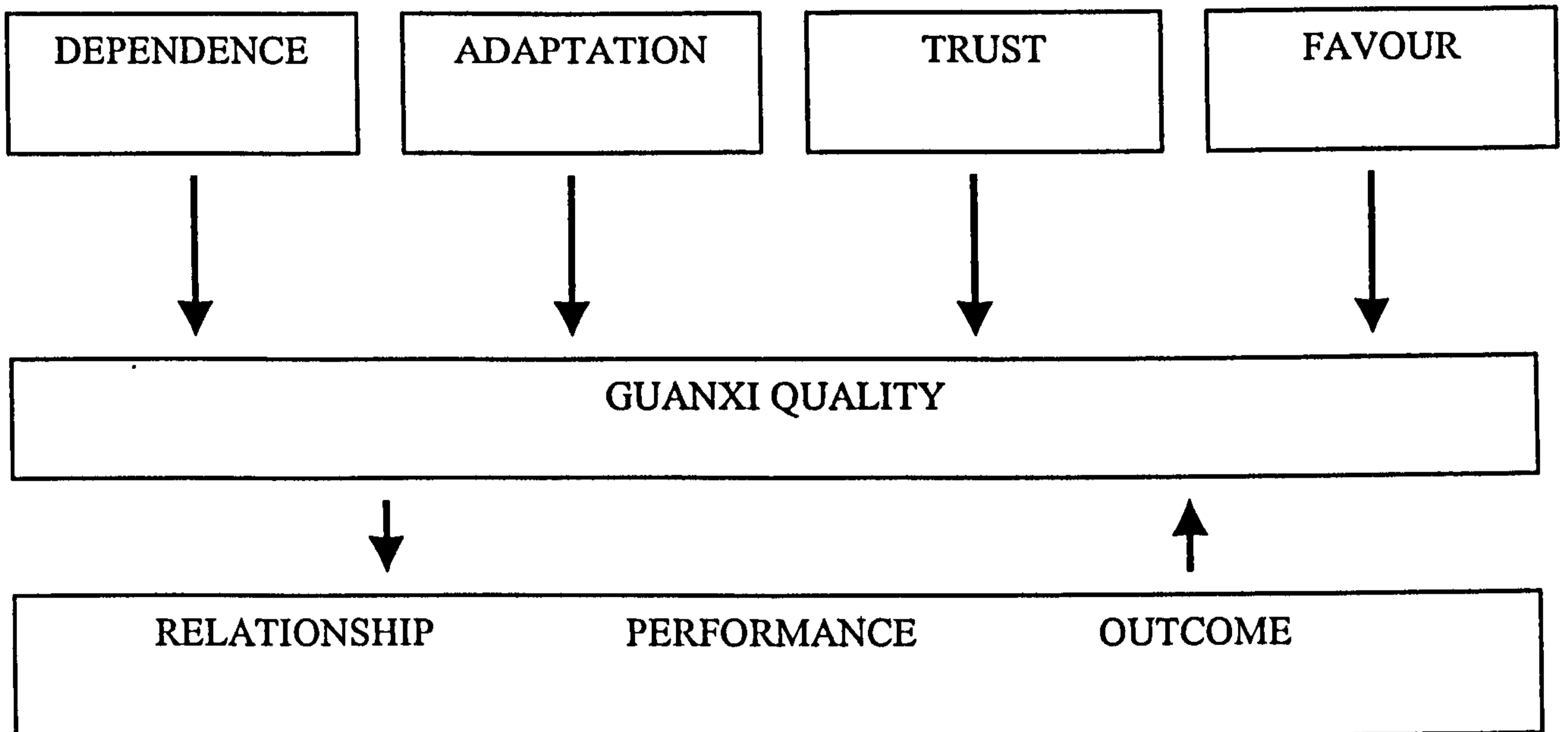
However, in line with Hutchings and Murray (2002) study, interviewees were questioned on *guanxi*, as well as the three variables that make up *guanxi*. The rationale behind this is that by questioning respondents in this way more detailed information relating to the relationship is likely to be determined. For example, a manager constantly causing loss of face (*mianzi*) amongst partners may find this leads to serious resentment within an IJV. However, simply questioning interviewees on the basis of *guanxi* may mean this finding is not divulged because it relates to the 'personal connection' rather than an underlying variable that makes up the *guanxi* construct.

Figure 4.1 shows the key attributes of *guanxi*. Within the attribute of "favour", *mianzi* (face) and *renqing* (exchange of reciprocal favour) are very important (Buttery and Wong, 1999). The following definition of *guanxi* provided by Fan (2002, p. 549) illustrates the importance of favour:

Guanxi is the process of social interactions that initially involve two individuals (A and B). A may or may not have special relationships with B. A asks B for assistance (favour) in finding a solution to a problem. B may have a solution at hand, or more often, has to seek further assistance from other connections, i.e. starts other connections.

The above definition goes beyond classifying *guanxi* as simply 'connections' by describing the process, in particular *renqing* and social interactions.

Figure 4.1 The key constructs of *Guanxi*



Source: Buttery and Wong (1999)

In accordance with figure 4.1, the Chinese cultural values of *xinyong*, *renqing*, *mianzi* and *guanxi* itself have been recognised as important factors in relationship performance and have therefore been adopted for this study.

It is worth noting as *guanxi* transaction has an impact on a much wider public than the *guanxi* parties concerned, the consequences of *guanxi* must be examined in the context of all stakeholders and at three levels: personal, organisational and societal (Fan, 2002). This study concentrates on *guanxi* in the context of inter-partner relationships, mainly from a Western parent perspective. The main reason for this is the researchers own *guanxi* limitations in relation to Chinese stakeholders.

Chinese cultural values are based on the following:

- Trust (*xinyong*) (Redding, 1990);
- Reciprocity (*renqing*) (Redding, 1990; Kirkbride *et al.* 1991);
- Face (*mianzi*) (Yau, 1994; Lockett, 1988; Kirkbride *et al.* 1991; Redding, 1990);
- Relationships (*guanxi*) (Davies, 1995; Warner, 1987, Pae *et al.* 2001)

IMP constructs are based on the following:

- Satisfaction (Walter *et al.*, 2000; Roberts *et al.* 2000)
- Trust (Ganeson, 1994; Sako and Helper, 1998)
- Commitment (Gundlach *et al.* 1995; Morgan and Hunt, 1994)
- Cooperation (Yan and Gray, 1994; Kemp, 1999)

(Table 4.2) provides an example of the coding frame incorporated for the study. The table also shows the codes attributed for each coded concept.

Table 4.2: Coding frame for qualitative research

Coded concepts (theme)	Example	Code
1. Guanxi	We spend time with our foreign partner on a business and social level.	G1
2. Trust	We know our foreign partner will always deliver on time and is open regarding the sharing of technological information.	T1
3. Commitment	We see this joint venture as being at least a 10-year venture.	C1
4. Cooperation	We work closely together in aiming to achieve our strategic objectives.	C2
5. Xinyong	We can always rely on the joint venture general manager to handle problems efficiently.	X1
6. Renqing	If we provide market information, we expect our foreign partner to share their technological expertise.	R1
7. Mianzi	Our foreign joint venture manager would always discipline staff members in front of the whole department.	M1
8. Satisfaction	We are pleased with the venture in the there is regular exchanging of information.	S1
9. Performance	We have achieved our set objectives over the short-term.	P1
10. Dissolution	We are considering switching from a joint venture to a WFOE in the near future.	D1

The above table shows the coding frame used to analyse the qualitative data from the interview transcripts. Each transcript was analysed in order to reduce the data by using the codes listed above. Relevant quotes that apply to given coded concepts were included in the results section. Quotations provide an interesting illustration of how each of the constructs and cultural values impact the IJV relationship. The possibility of determining patterns in the data was also considered.

Table 4.3: Example of how coding frame was established (guanxi)

Coding unit	Example
<i>Guanxi</i> (word)	Examine transcripts for the word <i>guanxi</i> in relation to relationships
<i>Guanxi</i> (theme)	Examine transcripts for instances where <i>guanxi</i> has been discussed as an important factor in joint venture success

Data was coded into a number of categories according to the research framework. Coding units for this study include the Chinese cultural values (*mianzi*, *renqing*, *guanxi*, and *xinyong*) and IMP constructs (trust, commitment, co-operation, and satisfaction). Also, the theme of WTO entry was further analysed. Themes are based on interpretation; however, referring to existing measures of constructs/cultural values and definitions helps to support issues of reliability and validity.

4.3.4 Qualitative study (Data analysis)

There is no standardised approach to analysing qualitative data. One option is to adopt the practice of working from interview transcripts, thoroughly reading and re-reading these in order to analyse the data. However, as briefly highlighted above, the method chosen is based on disaggregating the data into related categories. This allowed for the rearrangement and analysis of data meticulously. Having read the interview transcripts a categorizing strategy in the form of coding was applied. The goal of coding is to fracture the data and rearrange it into categories that facilitate the comparison of data within and between these categories and that aid in the development of theoretical concepts (Strauss, 1987: 29). Identification of categories was linked to the research questions. Dey (1993:96-97) states that 'categories must have two aspects, an internal aspect – they must be meaningful in relation to the data – and an external aspect – they must be meaningful in relation to the other categories'. This approach also allows the transformation of data from interviews with Western parent company managers in order so they can be:

- Effectively managed
- Merge related data drawn from different transcripts and notes
- Identify key themes or patterns from them for further exploration
- Draw and verify conclusions

The methods used to analyse the qualitative data include content analysis, which is a quantifying method and general analytical procedure (non-quantifying method). It is the main technique associated with semi-structured interviews (Jankowicz, 1991). Content analysis is a way of systematically converting text to numerical variables for quantitative data analysis (Collis and Hussey, 2003). Qualitative analysis also involved perceiving the data. This involves classifying the answers obtained. It involves 4 stages: categorizing, coding, tabulating and illustrating. Main steps highlighted below:

Content analysis procedure

1. Identify unit of analysis – recording unit, sentence, paragraph
2. Choose a set of categories – relevant to the issues being studied. Must be reliable, someone else repeating will find same information (increased reliability)
3. Read through the material, and, within each context unit, assign each assertion to one of the categories.
4. Tabulate the material. Present the categories and list the assertions under them

Although categories were predetermined, there is still a question of reliability. Would someone else perceive the same categories? To overcome this problem a photocopy of an uncoded script was handed to a respondent who was asked to recognize categories. A comparison of categories was then made until an agreement on the defining categories was developed.

4.4 Quantitative study

The aim of the quantitative study is to 'fill in gaps' identified from the qualitative study. This method has been tried before by IJV researchers (Glaister and Buckley, 1999). As mentioned in the introduction to this chapter, the quantitative aspect of this study is based on a questionnaire. A questionnaire includes data collection techniques in which each person is asked to respond to the same set of questions in a predetermined order (deVaus, 1996).

It is important to make the distinction between a 'questionnaire' and 'survey'. Collis and Hussey (2003) define a survey as 'a methodology whereby a sample of subjects is drawn from a population and studied to make inferences about the population.' While the same authors describe a questionnaire as 'a method for collecting data in which a selected group of participants are asked to complete a written set of structured questions to find out what they do, think or feel.' Obviously the latter definition applies to this study, given the focus of the research is finding out respondents views on IJV relationships.

A questionnaire can be used for surveys where the respondent answers the questions by recording their own answers; it can also be applied to face-to-face interviews (Saunders *et al.* 2000). The questionnaire is a widely used survey data collection technique. Questionnaires are not particularly good for research that requires large numbers of open-ended questions. They work best with standardized questions, which will be interpreted the same way by all respondents (Robson, 1993). Combining these types of quantitative and qualitative research is not new in the study of joint ventures. Their appropriateness has previously been demonstrated in the analysis of U.S.-Chinese interpartner relationships (Yan and Gray, 1994).

Prior to the actual study, a pilot study was conducted to measure the effectiveness of the questioning techniques. Although the majority of the respondents in this study work for a

Western parent company, they are of Chinese origin. Therefore it is important to take this into account before compiling a questionnaire. In order to overcome any potential cultural issues the pilot study was aimed at a group of Mainland Chinese respondents from the South of China. The sample size for the pilot study was 15 Chinese managers from Guangdong Federation of Youth (an educational delegation on a business trip to London). Interestingly, a number of the questions were not completed; this is because the questions were not particularly clear to the respondents. It is worth noting this is due to the wording of the questions, rather than the Likert scale questions. Glaister and Buckley (1999) advocate a pre-test questionnaire of this nature in order to confirm the appropriateness of the data collection instrument.

Malhotra *et al.* (1996) caution that when using a Likert-type scale measurement, researchers need to test the significance and appropriateness of anchors. They cite an example of a study of US-Japanese channel relationships that found Japanese managers did not adequately understand the scale anchors "agree/disagree", so the anchors were changed to "definitely true", "somewhat true", and "not at all true" (Johnson, Sakano, *et al.* 1993). For this study, the Likert scale questioning technique was applied for all questions, as it allows for easier data analysis, and has been tried and tested cross-culturally both through a pilot study and other researchers (see Pae *et al.* 2001).

4.4.1 Quantitative study (Sampling)

Although a sampling frame has been compiled, it has proven very difficult to gather information on the target audience (those managers responsible for setting up/involved with their IJV partner). Also, unless *the researcher develops guanxi* with respondents it is often very difficult to gather enough suitable data for analysis. An obvious example of this is the high number of articles into Chinese culture/FDI based on expatriate Chinese. Consequently, a snowball sampling method was employed. New respondents are selected following the recommendations of people to whom you have already put your questions; as you proceed, the number of respondents grows like a snowball (Jankowicz, 1991).

Obviously those respondents involved in the interview process were requested to aid the snowball sampling process.

According to Brewerton and Millward (2001) this approach is most applicable in small populations that are difficult to access due to their 'closed' nature, e.g. secret societies and inaccessible professions. This would suggest it is a suitable technique for research into Western and Chinese IJVs. First, there does not exist a definitive directory on Western FDI in China. Second, as previously discussed, accessing data in China is problematic even for the most experienced researcher. Although a non-probability method, it is not the first time this method has been used when conducting interviews in China. In their paper 'Getting the right interview in Asia' Kriz *et al* (2001) argue for the importance of using *guanxi* to start the snowball-sampling plan when conducting research in China. The snowball and referral process was geographically directed and led to referrals of managers suitable for participating in the study.

Hoinville *et al.* (1985) argues that the final sample size is almost always a matter of judgement rather than calculation. Although the sample used for this study is not large, it is on a par with many previous studies into joint ventures in China (*see table 4.2 below*). In many cases, for research of this nature a broad-based convenience sample is used see Beamish (1993).

Table 4.4. Studies on joint ventures in China

Author	Publication date	Sample size	Partner nationality
Daniels, Krug & Nigh	1986	11	U.S.
Chen	1986	931	Various
Yan & Gray	1994	4	U.S.
Campbell	1987	38	Various
Beamish & Wang	1989	840	Various
Teagarden & Von Glinow	1990	67	Primarily U.S.
Shenkar	1990	20	U.S., H.K., U.K.
Boisot & Child	1990	30	Various
Glaister & Buckley	1998	92	UK
Beamish	1993	22	Various

Adapted from Beamish, P. (1993) 'The Characteristics of joint ventures in the People's Republic of China'

4.4.2 Quantitative study (Data collection)

Data collection for quantitative analysis was based on a six-page questionnaire prepared in both Chinese and English. The questions were based on those used by previous researchers into IJV performance (Geringer and Herbert, 1991, Yan and Gray, 1994; Glaister and Buckley, 1998). Therefore, they have already been tried and tested and found to be appropriate for IJV parent respondents. In order to ensure conceptual and functional equivalence, an experienced Chinese researcher checked each of the questions. Checking the translation using two well-qualified English/Chinese translators reinforced consistency. A copy of the English and Chinese version was sent to those responsible in the Western parent company for developing and/or involved with the IJV Chinese partner.

Relationships were then examined between the various constructs e.g. trust and commitment. Asking respondents to be specific in the questionnaire helped 'fill the gaps' from the qualitative study.

An example of the questionnaire can be found in *appendix D*; however, the rationale behind the structure/questions is given below:

Section 1: Parent company/joint venture information

Respondents were asked to complete personal data, as well as information on the IJV. This included name, location, year IJV established and nature of the industry. Also, nature of industry was included in order to generate a cross-section of IJV's.

Section 2: Strategic objectives of UK partner

Respondents were required to choose a maximum of four items from the list that best described their strategic objectives for establishing the IJV. Numbered the most important 5, the next 4 and so on.

These objectives have been used in previous studies (e.g. Yan and Gray, 1994) in IJV performance. Establishing strategic objectives helps to understand why foreign firms entered China.

Section 3: Achievement of strategic objectives

Respondents were asked to indicate the extent to which these strategic objectives have been achieved by labelling 1=far short of plan, 2=short of plan, 3=about at plan, 4=exceeds plan, 5=far exceeds plan. For the quantitative study, IJV performance is interpreted as the extent to which strategic objectives have been achieved.

Section 4: Means of first contact between partners

Respondents were questioned how they made contact with their Chinese partner. A number of options were given. This section was included to see how much of a role government has in the IJV process.

Section 5: Trust and commitment between IJV partners

This section measures trust and commitment using questions that contribute to each of the constructs. Questions 34-38 are linked to trust, while 39-43 is linked to commitment. Each respondent were asked to tick the appropriate box. Questions based on Likert scale (5 point). For analysis, strongly agree equates to 5 points, agree 4 points and so on.

Section 6: Important factors in the relationship with our Chinese partner

This section concentrates on important factors in the relationship. It is a rank order question requiring respondents to number in order of priority each construct based on the impact on their relationship with their Chinese partner. Although the answer requires 6 = most important, 5=second most important etc.

Section 7: Relationship value

Again, this section uses the 5-point Likert scale questioning technique. The same process applies in terms of analysis. Overall relationship value was based on questions 50-52, while relationship value (specifically question 50) was analysed to draw comparisons in the data.

Section 8: understanding of Chinese culture

Respondents are asked questions based on their understanding of Chinese culture. Questions 53-56 are then combined to form a variable – cultural understanding. This is an independent variable that is later correlated with IJV performance (achievement of strategic objectives).

Section 9: Cultural differences

An open question asking respondents to describe a situation that has led to conflict between both IJV partners as a result of cultural differences. Examples of quotations are included in the results chapter. This question was included because it provides an interesting practical insight into how cultural aspects can impact an IJV relationship.

Although respondents were given the option of answering in Chinese or English, all of them replied in English. Consistency in the questions was addressed by ensuring the English version was translated into Chinese, then back into English. Two separate Chinese translators undertook this. The fact that all of the respondents replied in English maybe due to the fact they work for a Western company. Self – administered questionnaires were used. The questionnaire was e-mailed to the Western general manager of the parent company responsible for the joint venture; these then returned via e-mail after completion. A second wave of questionnaires was administered after one week, followed by a telephone call a week later. This was used in order to generate a sufficient sample size. Dillman (1978) describes how best to maximise response rate of participants in questionnaire and telephone surveys. The following factors can lead to an increase in response rate:

- 1) Cooperation is in some sense rewarding to them
- 2) The rewards outweigh the costs to them, in terms of money, time and effort
- 3) They are convinced that they can trust you to keep your side of the transaction

In order to boost response rates for both the qualitative and quantitative research, respondents were offered a copy of the findings. This proved to be particularly attractive to many of the IJV partners.

Postal questionnaires were not used for this study because the disadvantages are that even if they are addressed to the correct recipient, there is no way of finding out if the intended respondent actually completes the questionnaire. E-mail offers greater control because most users read and respond to their own mail (Witmer *et al.* 1999). E-mail is now widely used in China. Evidence of this is that many Chinese directories now include e-mail addresses within companies contact details.

A covering letter on Anglia Polytechnic University letterhead explaining the nature of the survey accompanied the questionnaire (the author's employer). This covering letter was

used as an attachment with the e-mail. Sample respondents delivered their reply via e-mail by sending the original form of the questionnaire as an attachment.

Sackmary (1998) defines e-mail surveys as 'any data collected that is sent to the e-mail address of the respondent and returned by e-mail to the researcher'. He further notes the option of printing out the questionnaire and returning it by mail also exists. Anonymity of the respondents can be assured by not recording any identifying e-mail address or fax number information from the participant. The nature of this research is liable to lead to a low response rate. In order to increase the number of replies, each e-mail expressed anonymity and confidentiality would be employed throughout the study. Zikmund (1997) has expressed the advantages of using this e-mail method as follows: 'It has been argued that many respondents feel they can be much more candid on e-mail for the same reasons they are candid on other self-administered questionnaires. It has been suggested that e-mail questionnaires arouse curiosity because they are novel and because they reach respondents when users are more likely to answer because people opening their e-mail are prepared to interact. (p. 253)'. However, an increasing amount of e-mail traffic is related to junk mail. Therefore, the subject box is an important tool in trying to arouse interest when sending e-mail. For the purpose of this study, the subject boxes included the heading 'PhD research' rather than 'research'. By emphasising the theoretical aspect of the study in the subject box, the author aimed to increase the level of response to the study. Respondents may associate the term 'research' with market research, thus probable junk mail.

Tse (1998) suggests that e-mail surveys are best suited to situations where;

- 1) the population under study consists of elements with universal or nearly universal e-Mail account ownership, this is certainly the case for Chinese managers
- 2) there is no need to incorporate high quality image or colour in the questionnaire, and
- 3) the inclusion of incentives will not greatly facilitate response rate and response quality.

Certainly this study follows all three situations. In terms of incentives, respondents were offered a

summary of the findings upon completion. This proved to be very popular. Many displayed a keen interest in reading any future findings. In his study of response rates, response speed and response quality conducted in Hong Kong Chinese culture, using the Chinese University of Hong Kong faculty, Tse (1998) did find that e-mail response rates were significantly lower than mail questionnaires. However, response speed was significantly faster with e-mail and response quality was equal between the two methods. Of importance to this study was the fact that he did not find any evidence that the nature of the survey was affected by the mode of delivery of the questionnaire. The outcome of using this means of distributing the survey, therefore, was anticipated to improve response rate and expedite the turnaround process of receiving the questionnaires from international respondents.

Schaefer and Dillman (1998) compared paper (i.e., fax or printed surveys) versus e-mail surveys and found that response rates were not considerably different for the two methods. However, they did obtain more complete returned questionnaires when e-mail was used. Therefore, given the logistical difficulties of targeting Western parent company managers mainly in China via postal surveys, e-mail was the chosen method.

4.4.3 Quantitative study (measurement variables and issues)

Measurement can be defined as 'rules for assigning numbers (or the numerals) to empirical properties'. Probably the most well-known research project into cultural values is that conducted by Hofstede. Using survey research carried out between 1967 and 1978 within foreign subsidiaries of IBM, Hofstede (1980) found that national cultures differ along four dimensions: power distance, uncertainty avoidance, individualism, and masculinity. Power distance measures the degree to which people accept the unequal distribution of power inside organizations; uncertainty avoidance represents the degree to which people tolerate uncertainty and ambiguity in situations; individualism, as opposed to collectivism, stands for the preference of people to belong to a loosely versus a tightly knit social framework; masculinity, as opposed to femininity, represents the degree to which people prefer values of success and competition over modesty and concern for others. Although used in a

number of studies, Hofstede uses a Western approach to gathering data on cultural values. In other words, an etic approach to data collection. For example, what about Confucian values in Chinese culture? Hofstede takes a broad look at culture. According to Geringer (1998), when studying alliances, researchers need to focus on identifying and refining improved measures. He discusses the need to develop more valid and reliable measures of key constructs, such as alliance performance and culture.

A combination of an emic and etic approach was used in the field study and in the constructs used. The terms emic and etic are derived from *phonemics* (sounds belonging to one language) and *phonetics* (sounds common to all languages) (Fang, 1999). Emic approaches relate to cultural specific constructs, whilst etic refers to culturally universal constructs, in that they are interpreted the same cross-culturally. Western ethnocentric models using etic approaches have failed to produce a valid and reliable description of Chinese behaviours when they are used in China (The Chinese Culture Connection, 1987; Hofstede and Bond, 1988; Adler, Campbell and Laurent, 1989). Much has been written on Chinese culture based on the etic view. The IMP paradigm has been used largely in a Western business environment, and therefore is etic in nature. Emics attempt to capture the richness of the layers of culture that are fundamental prerequisites for progressing from this discovery phase to verification (Hunt, 1991).

Triandis (1994, p.68) stated, 'If we are going to understand a culture, we must use emics.' By using the emic approach or an interpretive paradigm the researchers are seeking to penetrate the idiosyncratic nature of the socio-cultural cum business traits of the Chinese to try to denude the gap between the two business cultures and increase the success rate of Chinese and Western ventures.

For this research study a cultural specific approach was applied using both etics and emics. Constructs used to determine Western parent company manager's opinions on the relationship will involve constructs largely associated with the IMP Group, and therefore Western researchers. These are commitment, trust, co-operation, and satisfaction.

Respondents completing the questionnaire will be asked to rank these constructs along with 'avoiding conflict' and 'others' in order to determine which constructs they consider to be the most important in IJV relationships.

Performance was measured in terms of strategic objective importance and strategic objective achievement. A list of 9 strategic objectives was produced by consolidating the findings and propositions of previous researchers (Yan and Gray (1994; Hatfield et al. 1998). One of these 9 included 'other' in order to enable completeness of the strategic objective list. Each partner was asked to rank in order of importance each strategic objective, and then use the 5-point Likert scale to indicate the extent to which the objective has been achieved.

The Likert scale for strategic objective importance was labelled as follows: 5-most important, 4-second most important, 3-third most important etc. Space was available for respondents to add any additional goals in the survey. The Likert scale for achieving strategic objective importance performance was labelled as follows: 1-far short of plan, 2-short of plan, 3-about at plan, 4-exceeds plan, 5-far exceeds plan. The strategic objectives for Western firms are as follows (in no particular order of preference):

Strategic objectives of UK partners:

- Earn a profit in China
- Penetrate the Chinese market
- Pursue business growth
- Develop a base for low cost sourcing
- Establish presence in China
- Build credibility and reputation
- Establish a base to access the Asia market
- Learn how to do business in China
- Others (Please specify)

4.4.4 Quantitative study (Analysis)

A total sample size of 57 completed questionnaires was generated. Data from the quantitative survey were analysed using a variety of analytical methods within SPSS.

All data recorded from the questionnaire was based on numerical codes. This allowed data to be entered quickly, while at the same time reducing the likelihood of possible errors. Where data had not been collected, a “missing value” definition was added. In this case number “9”. Consequently, these values were not included in the analysis.

First, data for variables such as strategic objectives was presented descriptively. For example, frequencies and rank order. Second, performance was analysed along with explanatory variables in order to look for possible statistical associations. This primarily involved correlation analysis. Finally, when presenting the results, reference is made to previous studies to see how the findings compare to existing studies of a similar nature.

4.5 Secondary analysis

Secondary data is data, which already exists (Hussey and Hussey, 1997). For this study, this includes highlights of the joint venture contract, annual reports, promotional material, parent company documentation, published case descriptions, magazine and newspaper reports on the partnership, as well as government printed sources. Multiple sources of data are used in case studies to increase validity and reliability (Yin, 1989). It should be stressed the secondary data in this research is largely limited to data presented in English. As a non-Chinese speaker, this is an obvious limitation since it is restricting the volume of data available for analysis (see limitations). However, it is a common problem for individual researchers conducting cross-cultural research. As well as not speaking Chinese, two other factors make researching secondary data particularly difficult. First, accessing information. China is still very much a planned economy. It comes back to the *guanxi*

issue. Second, accuracy of data remains a problem. An obvious example is the recent accusations of ‘massaging’ the figures in relation to the number of Sars cases.

4.6 Reliability and validity

Reliability concerns the extent to which a measurement of a phenomenon provides stable and consistent results (Carmines and Zeller, 1979). Moser and Kalton (1989:353) define reliability as ‘a scale or test is said to be reliable to the extent that repeat measurements made by it under constant conditions will give the same result. Yin (1994) describes it as ‘demonstrating that the operations of a study – such as the data collection procedures can be repeated, with the same results’. The same author suggests adopting the following three principles in order to help deal with the problems of establishing the construct validity (see below) and reliability of a case study:

1. *Use multiple sources of evidence* – A major strength of case study data collection is the opportunity to use many different sources of evidence. The use of multiple sources of evidence in case studies allows an investigator to address a broader range of historical, attitudinal, and behavioural issues. Thus any finding or conclusion in a case study is likely to be much more convincing and accurate if it is based on several different sources of information. (This has been addressed in this study by using a range of sources).
2. *Create a case study database* – Every case study project should strive to develop a formal, presentable database, so that, in principle other investigators can review the evidence directly and not be limited to the written reports. (This has been addressed in that a detailed database was compiled to include all participants in the study. Name, company, contact details, joint venture details, interview transcripts and questionnaires are all stored electronically for future reference).
3. *Maintain a chain of evidence* – This increases reliability by allowing an external observer to follow the derivation of any evidence from initial research questions to ultimate case study conclusions. The external observer should be able to trace the

steps in either direction (from conclusions back to initial research questions or from questions to conclusions). (A chain of evidence was maintained by using the research supervisor to follow the derivation of evidence).

A number of factors could affect the reliability of this study. These include: wording of questions, physical setting (interview), and nature of interaction and regression effect of an instrument. This refers to a respondent who may express opinions differently second time round. The wording of questions in the questionnaire was compiled based on questions from previous studies (add sources). As revealed, these questions had been tried and tested on samples of existing IJV parent companies. The questionnaire was viewed by a number of British and Chinese academics, business professionals and those involved in Western-Chinese joint ventures. Subsequently certain amendments were made, particularly in view of the target audience.

Validity is the ability of an instrument to measure what it is designed to measure (Kumar, 1996). Nachmias (1992) defines validity, as 'Is one measuring what one intends to measure'? In other words, it refers to the relationship between a construct and its indicators. There are three types of validity – content validity, empirical validity and construct validity.

There are two types of content validity: face validity and sampling validity. Firstly, face validity concerns the extent to which an instrument measures what it is supposed to measure. In order to ensure face validity for the questionnaire to both Chinese and Western respondents a number of specialists viewed questions prior to compiling a final version. These included the student's supervisors. Both have extensive research experience, whilst one speaks both Chinese and English. Also, English and Chinese managers involved in joint venture development. There is agreement among the specialists that the questionnaire has face validity. Hakim (2000) states, in general questions about behaviour seem to cause fewer translation problems than questions about attitudes, values

and preferences. Given this study focuses on constructs such as trust, commitment and conflict, backward translation is used as a form of face validity.

Empirical validity is concerned with the relationship between a measuring instrument and the measurement outcomes. Measuring instruments used are based on both qualitative and quantitative techniques; this should therefore provide in-depth insights into the research findings.

Construct validity involves relating a measuring instrument to a general theoretical framework in order to determine whether the instrument is tied to the concepts and theoretical assumptions that are employed. Giorgi (2002) defines it as 'the extent to which a test may be said to measure a theoretical construct or trait'. While Yin (1994) defines it as 'establishing correct operational measures for the concepts being studied'. A construct is valid to the extent that it measures what it is supposed to measure (Zikmund, 1995, pp.342-345). Construct validity can also be defined as 'the extent to which an operationalisation measures the concept, which it purports to measure (Zaltman *et al.*1997:44). As mentioned, this study uses questions that have been pre-tested using a pilot study and are also based on relevant literature. There by addressing the issue of construct validity. Also, using triangulation addresses the potential problems of construct validity because the multiple sources of evidence essentially provide multiple measures of the same phenomenon (Yin, 1994). Giorgi (2002) stresses validation of a construct requires 'gradual accumulation of information from a variety of sources'. The author then says any data throwing light on the construct is acceptable. Thus, appeal is made to developmental changes, age differences, factor analyses etc. But none of these criteria truly eliminate the 'subjective factor' that tests try so hard to eliminate.

Adopting the Likert scale to address cross-cultural research can be problematic. For example, the scale items used, may not necessarily be interpreted the same in other cultures. This was a concern when conducting the pilot study. However, when

respondents failed to answer a question, it was because they misunderstood it, not because they misinterpreted the scale used.

Mays and Pope (2000) recommended the following ways to improve validity when conducting qualitative research:

1. *Methodological triangulation* - compares the results from either two or more different methods of data collection or, two or more data sources. The researcher looks for patterns of convergence to develop or corroborate an overall interpretation. The authors suggest this may prove controversial as a test of validity because it assumes that any weaknesses in one test will be compensated by strengths in another. Triangulation may therefore be better seen as a way of ensuring comprehensiveness and encouraging a more reflexive analysis of the data than as a pure test of validity. (Methodological triangulation has been incorporated into this study by conducting qualitative and quantitative research).
2. *Respondent validation* – This includes techniques in which the investigator's account is compared with those of the research subjects to establish the level of correspondence between the two sets. Study participant's reactions to the analyses are then incorporated into the study findings. This does have its limitations in that the account produced by the researcher is aimed at a wide audience and will be different from an individual informant because each one has a different role in the research process. Mays and Pope (2000) suggest respondent validation is part of a process of error reduction, which also generates further original data, which in turn requires interpretation.
3. *Clear exposition of data collection and analysis* – It is important to have a clear account of the process of data collection and analysis. It should be possible to provide a clear account of how early, simpler systems of classification evolved into more sophisticated coding structures and hence into clearly defined concepts and explanations for the data collected.

4. *Reflexivity* – is defined as sensitivity to the ways in which the researcher and the research process have shaped the collected data, including the role of prior assumptions and experience. Personal and intellectual biases need to be made plain at the outset of any research reports to enhance the credibility of findings. The effects of personal characteristics on the data collected and on the ‘distance’ between the researcher and those researched also need to be discussed.
5. *Attention to negative cases* – A long established tactic for improving the quality of explanations in qualitative research is to search for, and discuss, elements in the data that contradict, or seem to contradict, the emerging explanation of the phenomena under study.
6. *Fair dealing* – It is important to ensure that the research design explicitly incorporates a wide range of different perspectives so that the viewpoint of one group is never as if it represents the whole truth about a situation.

Patton (1990) advocates using triangulation in order to reduce errors that may be linked to one single research method. The author proposes four kinds of triangulation contribute to verification and validation of qualitative analysis:

1. Checking out the consistency of findings generated by different data collection methods (methods triangulation).
2. Examining the consistency of different data sources within the same method, that is, triangulation of sources;
3. Using multiple analysts to review findings, that is, analyst triangulation; and
4. Using multiple perspectives or theories to interpret the data, that is, theory/perspective triangulation.

By combining multiple observers, theories, methods, and data sources, researchers can make substantial strides in overcoming the scepticism that greets singular methods, lone analysts, and single-perspective theories or models (Patton, 1990).

Quinn (1999) discusses the importance of credibility when conducting qualitative research.

The credibility issue for qualitative inquiry depends on three distinct but related inquiry elements:

- * Rigorous techniques and methods for gathering high-quality data that are carefully analysed, with attention to issues of validity, reliability, and triangulation;
- * The credibility of the researcher, which is dependent on training, experience, track record, status, and presentation of self; and
- * Philosophical belief in the value of qualitative inquiry, that is, a fundamental appreciation of naturalistic inquiry, qualitative methods, inductive analysis, purposeful sampling, and holistic thinking.

4.7 Cross-Cultural Research

Conducting cross-cultural research is no easy task - particularly for a Western researcher focusing on China. Although there has been little research into the difficulties facing Western researchers in Asia, its significance has recently been recognised by the IMP Group (Kriz *et al.* 2002). The authors propose the following 13 elements as a starting point for a check list of key success factors in undertaking business research in Asia. Each of these points has been addressed in this study wherever possible:

Original data – Determination is required to pursue original data. It is very difficult to gain access to the right interviewees, hence the importance of *guanxi*. Fortunately, the author has a certain amount of *guanxi* through working for the Chinese government from 1995-96, and having a Chinese wife.

Through literature review – It is important that an in-depth literature review is undertaken as it helps to discover important aspects of the culture to be investigated. For this study a

comprehensive review was undertaken focusing on IMP literature, Chinese literature and Western/Chinese authors.

Exploratory discussions – Important to speak to people ‘on the ground’, either in the industry or with recent knowledge of the business environment and culture. This was certainly done in order to provide a Western and Chinese perspective, particularly when formulating the questionnaire.

Exploratory interviews – This includes finding an initial line of questioning that eases the respondent into the interview. This was taken into account by using an ‘icebreaker’ as well as cultural factors e.g. face.

Establish credibility of researcher – Kriz et al. (2002) stress during interviews the credibility of the researcher has to be clearly evident to the respondents, otherwise referrals will not be given (snowball sampling). The author found credibility is also important when dealing with sensitive information e.g. stressing confidentiality.

Use of contacts in target country – Essential in China, and used to good effect by the author e.g. *guanxi*. The author had a number of marketing contacts, being a qualified marketer helped to establish credibility.

Focus on one theme – it is not advisable to undertake interviews unless the topic is reasonably clear. In this study respondents were fully briefed on the nature of the study prior to interviews, along with line of questioning. It was acknowledged springing ‘surprise’ questions on interviewees was best avoided.

Emic vs Etic – Important to establish the two approaches prior to commencing the study. This issue has been fully addressed in this study.

Importance of definitions – It is important to have concise definitions of the main constructs. For this research various constructs e.g. trust have been fully reviewed in the literature review, with each proposed definition fully explained.

Appreciation of culture – Essential the researcher has a specific understanding of basic elements of culture specific to each country/region under study. As explained, the author's wealth of experience of dealing with China means these criteria was met.

Appropriate management levels were targeted for interviews – In many cases this is middle and senior managers, as junior people would not have the experience required to address the respective topics. In this study all respondents were involved in establishing and/or heavily involved with the IJV in some capacity. Obviously these people are managerial/directorship level.

Use of other researchers throughout – Using the knowledge of other researchers helps to address problems, generate definitions and identifying new aspects of research. The importance of other researchers was fully utilized by asking the opinion of supervisors and colleagues at the author's own institution.

Low 'wastage' rate of interviews – Employing the above techniques can go some way to ensuring time is not wasted as a result of interviews not fulfilling set criteria.

Kriz *et al.* (2002) elements go some way to overcoming the difficulties facing Western researchers in Asia. However, another important factor that should also be included is 'selling' the research to the respondents. This really applies to any kind of research. In this study all respondents were promised, and received, a summary of findings. This helps to build trust with respondent (essential when conducting research in China) and hopefully will lead to participants being encouraged to take part in further studies.

Yu *et al.* (1993) argue that methodological issues may be classified into six categories: functional equivalence, conceptual equivalence, instrument equivalence, sample selection, data collection methods, and data analysis:

- Functional equivalence – All variables under investigation must perform the same functions in the different nations being studied. For example, Westerners may see a bike as a leisure activity; Chinese people might see it as a way of getting to work.
- Conceptual equivalence – Many concepts are culture bound. Obviously these concepts are inappropriate for use on a cross-national basis. For example the concept of Mianzi (face) is emic in nature in that it is culturally specific to China.
- Instrument equivalence – When conducting cross-cultural research it is very difficult to develop equivalence cross-cultural instruments. As mentioned, these are divided on the basis of etic ‘culture free’, therefore the same instrument, properly translated, can be employed in all, or a number of nations. Emic (culture bound) must be constructed to study a phenomenon only within the context of a single society. This is broken down into measurement and vocabulary equivalence:
 - i) Measurement – Equally valid measures need to be employed. For example, instruments may have to be modified to take into account differences in demographics and literacy rates of respondents.
 - ii) Vocabulary equivalence – The translation must be equivalent to the original language in which the instrument was developed. For this research although the majority of respondents are Chinese, their English is at a sufficient level, therefore direct translation was not required.
- Sample selection – Cross-national research requires samples, which are as closely comparable as possible. These samples should be matched on basic

socioeconomic, organiaastional, and other vital characteristics, which may affect research findings.

- Data collection methods – These include the following issues:
 - a) *Response equivalence* – Researchers should adopt uniform procedures in different countries in order to minimize variance due to data collection procedures.
 - b) *Timing* – For purposes of comparison, data must be collected in different countries either simultaneously or within a reasonable time frame.
 - c) *Status and psychological issues* – In some cultures, the status discrepancy between interviewers and respondents may result in response bias.
 - d) *Longitudinal vs., cross-sectional data* – Most data collection is static, not dynamic. This applies not only to cross-cultural research, but also to marketing research in general.

- Data analysis – Cross-cultural research has in the past utilized very simplistic analyses. More sophisticated techniques have now been developed, and researchers must, if appropriate, apply those which can capture subtle differences in how concepts are absorbed in different cultures.

There are a number of important concerns with regard to the focus of the study, the external environmental issues effecting the construct definitions, and the internal measurement issues effecting the construct measurement to be considered (Malhotra, *et al.* 1996). This section will address those issues and how they will be handled in this study.

When focusing on cultural variation (e.g. the four dimensions of national culture), intra-cultural analysis (i.e., studying subjects in different populations separately), cross-cultural analysis (i.e., comparing the results of separate intra-cultural analyses), and pan-cultural analysis (mixing subjects from separate cultures to study) are all appropriate methods for the focus of a study (Leung and Bond, 1989). This study focuses on cross-cultural

analysis, as the objective is to determine differences in the national culture between the West and China and how these may impact joint venture performance.

In cross-cultural analysis the data can be aggregated for each country and these aggregate statistics analysed. The objective of this level of analysis is to assess the comparability of findings from one country to another (Netemeyer, *et al.* 1991). The similarities as well as the differences between countries should be investigated. Malhotra *et al.* (1996) suggest that not only differences in means, but also differences in variance and distribution should be assessed. In this study, adopting emic constructs where appropriate is intended to overcome cultural sensitivity; these will in turn be measured to see how they relate to other constructs, as well as joint venture performance.

As previously identified, the two relevant external environmental issues are: functional equivalence and conceptual equivalence (Malhotra *et al.* 1996). Functional equivalence examines whether a given concept or behaviour serves the same role or function in different cultures (e.g., a non-smoking seat on most international airlines indicates the entire section of the airplane is non-smoking, however, on a People's Republic of China airline, it only means your seat is non-smoking). Conceptual equivalence deals with whether the concept or construct is expressed in similar attitudes or behaviours across cultures. For example, the concept of family in western society refers to immediate family. Whilst in Asia, family also relates to aunts, uncles, cousins etc.

The qualitative study explores an emic approach into cultural values in more depth. For example, ethnic Chinese managers are asked the impact of *guanxi* on the relationship. Cultural differences can be more important for the content of the research, affecting the substantive meaning of concepts, ideas, scales, themes or the wording of questions. For example, there is no apparent word or phrase in Japanese that approximates the idea of god that is so well established in countries with a Judeo-Christian-Moslem culture (Jowell, 1998:172). One procedure used to check translations from interviews/questionnaires is back translation into English from Chinese, as it is important to have both functional and

conceptual equivalence of meaning. (Table 4.5) highlights the conceptual differences between key variables in Chinese management and the IMP literature.

Table 4.5: The table below highlights the conceptual differences between key variables in Chinese management and the IMP literature

Chinese Management	Interaction and Networks Approach
<i>Guanxi</i> - Personal relationships at a social and business level	Relationship - focuses on the relationship between a buyer and seller
<i>Guanxiwang</i> - personal networks used at the social and business level	Network - organisational networks, used to analyse direct and indirect relations
<i>Xinyong</i> - personal trust	Trust - systems trust
<i>Chongtu</i> - strong emphasis on harmony, conflict tries to be avoided or quickly resolved	Conflict - between firms (buyer and seller). Becoming less common as firms use a collaborative approach
<i>Chengruo</i> - based on group commitment towards a common goal	Commitment - at the individual level
<i>Hezuo</i> - based on Confucian value system (respect for authority/elders)	Co-operation - terms of contract affect co-operation.
<i>Jiao Huan</i> - great importance placed on social exchange	Exchange - informational, financial, product and social

Source: Wilson and Brennan (2001)

The above table highlights the potential minefield for foreign firms entering China when it comes to understanding Chinese culture. Perhaps the best-known Chinese cultural values are *guanxi* and *guanxiwang*, although all of them are significant.

4.8 Internal Measurement issues

Another important part of cross-cultural research relates to the actual measurement of the constructs. There are three areas of concern in internal measurement: instrument equivalence; instrument translation; and the adequacy, representativeness and comparability of samples (Malhotra *et al.* 1996). Instrument equivalence deals with whether the scale items, such as strategic objectives, are interpreted the same by Western and Chinese respondents. Instrument translation is not an issue in this study as all of the Managers involved in the joint venture process comprising the sample had the option to complete questionnaires in their mother tongue. Also, the questions and constructs used aim to be culturally specific. The adequacy, representativeness and comparability of the samples are an important part of this study and will be discussed below.

Instrument Equivalence. Instrument equivalence presents two concerns: 1) whether the items in the scales are culture specific or culture-free, and 2) if scalar equivalence exists. A scale item that is considered culture-free (i.e., it can be employed in a number of cultures to measure the same phenomenon) is termed an etic instrument. An item that is specific to one culture (i.e., it only measures a phenomenon in that culture) is said to be an emic instrument. Etic phenomena usually have the stronger interest for cross-cultural marketing researchers, compared with emic phenomena, because of the multiple-culture focus of cross-cultural marketing researchers (Malhotra *et al.* 1996). However, it has been suggested that cross-cultural measures should be composed of a set of cross-national etic indicators and a set of culture-specific emic indicators (Przeworski and Teune, 1970). A combination of the etic and emic indicators would then result in a scale with improved reliability and validity in different cultures. The measurement is equivalent to the extent to which the scale furnishes homogeneous indices for the various cultures, while measures for specific cultures are equivalent to the extent to which the culture-specific emic measures are related to the identical etic measures (Malhotra *et al.* 1996).

Scalar equivalence, examines whether the psychometric properties of data from the various cultures exhibit the same coherence or structure. It examines whether the scores obtained from respondents in different cultures have the same meaning and interpretation. This involves demonstrating that two individuals from different cultures with the same value on some variable, such as trustworthiness, will score at the same level on the same test. The specific scale or scoring procedure used to establish the measure should be equivalent (Malhotra *et al.* 1996).

The issue of scalar equivalence, as related to this study, concerns the use of Likert-type scale measures. Some researchers have found that attitude measures such as Likert-type scale measures are culture-specific (i.e., have emic properties) even among countries with some commonality such as Japan, South Korea, and China (Yu, *et al.* 1993). That same study of the three Asian cultures, determined significant main effects and interactive effects owing to country and types of scale used on response ratings (Yu *et al.* 1993). A similar problem could result from extreme response style (ERS), which is the tendency of a group to endorse extreme categories of responses in multiple response items. This can produce different in-group means and affect the level of item correlation within a measure (Samiee and Jeong, 1994). Courtesy bias is another source of variation common in Asia, which raises concerns about biases that would affect comparability of results (Douglas and Craig, 1983).

The focus of this study is to identify any relevant negative effects. The fact that the scales being used to measure cultural understanding and IMP constructs have been successfully replicated in many cross-cultural studies would indicate that the anchors being used and the Likert-type scale measurement used are appropriate. It is also important to note that this study focuses on the unit of analysis of culture versus the individual and on the relationship, not the individual buyer. Therefore, the response to the items is not anticipated to be as strongly influenced as those personal items used in consumer-oriented studies. Yu *et al.* (1993) suggests that ranking scales have a more etic quality, so a ranking

of the importance of each construct and value overall in the relationship will be employed as a means to validate the scales.

Brislin (1986) also makes the following suggestions for measurement purity in cross-cultural research that will be adhered to in creating new scale items for this study: 1) use short sentences with one dominant idea per sentence, 2) avoid metaphors and colloquialisms, 3) use specific rather than general terms, and 4) avoid words indicating vagueness regarding a certain object or event.

4.9 Data Analysis plan

Table 4.6: Data analysis plan showing each stage of analysis

Stage of analysis	Type of analysis	Date undertaken / completed
1	Measure of location for quantitative analysis (mean, mode, median)	April/May 2004
2	Exploratory analysis using frequencies	May 2004
3	Cross-tabulations is used to present frequencies	May/June 2004
4	Kendall Tau correlation is used to analyse the bivariate, nominal data	June/July 2004
5	Qualitative data analysis using content analysis	February - May 2004

The above table shows the type of analysis undertaken, along with start and completion dates. The qualitative analysis took rather longer than expected. This was probably

because this is the first time the author has conducted this type of analysis based on such a large scale.

To conclude, this chapter provides a clear overview of the methodological approach for this study. The next chapter provides the results and analysis from the triangulation and presents these in a number of ways. This includes quotations and content analysis from respondents that took part in the qualitative study, along with statistical findings resulting from the six-page questionnaire survey. Comparative analysis is made with existing studies into IJV performance in order to determine how the findings contribute to the current body of literature.

CHAPTER FIVE: RESULTS AND ANALYSIS

5.1 Introduction

This chapter reports on the findings of the research. It is structured as follows: The first part reports on descriptive results. This includes: nature of the industry, means of first contact between partners and strategic objectives. Thereafter, findings are reported based on analysis of both the qualitative and quantitative data. This includes qualitative analysis determining the impact of IMP constructs, exchange episodes and cultural values on performance. Quantitative analysis is used to ‘fill the gaps’ by exploring the relationship between each of the constructs, as well as establishing important factors to the relationship. In order to do this Kendall’s Tau (non-parametric) correlation is used in order to measure the strength of relationship between constructs. This is used rather than Spearman’s coefficient as it is regarded as being a better estimate for a small data set with a large number of tied ranks. Glaister and Buckley (1998) used the same type of correlation analysis based on their study of UK international alliances.

A discrete value for “missing values” was added (number 9) to those questions that produced a non-response. This was added for questions 12 through to 29.

Throughout the results, reference is made to how findings relate to previous research into FDI performance. It is important to do this in order to see how the findings ‘fit’ into the current literature as well as highlight any significant differences that may require further analysis.

Table 5.1: Age range of Joint ventures + Mean

Age range	Number
0-5 years	35
6+ years	22
Total (mean in brackets)	57 (5.19)

The 57 joint ventures in the sample were formed between 1990 and 2003. The mean is just over 5 years. Considering China introduced its 'open-door' policy as early as 1979, this appears to represent a rather low figure. However, a mean of approximately 5 years is not uncommon when conducting IJV research. For example, Child and Yan (2003) selected a sample that had been operating from between 2 and 15 years, with a mean of 4.8 years and a mode of 3 years, while Yan and Gray (1994) used a sample with a mean of 5.66 years. Having a sample of IJVs that are relatively new may allow for possible comparisons to be made.

It proved difficult to find older IJVs. This may be because many have experienced dissolution or have changed their operational mode in line with on-going reforms. Certainly the older 'Western' IJVs appear to be largely of U.S. origin. Considering the USA is home to the majority of the world's multi-national companies, this makes perfect sense.

5.1.1 Nature of the industry and size of companies

Table 5.2 indicates the number of joint ventures for each respective industry. It highlights respondents from both the qualitative and quantitative sample.

Table 5.2: Industrial sectors represented in the survey sample (quantitative)

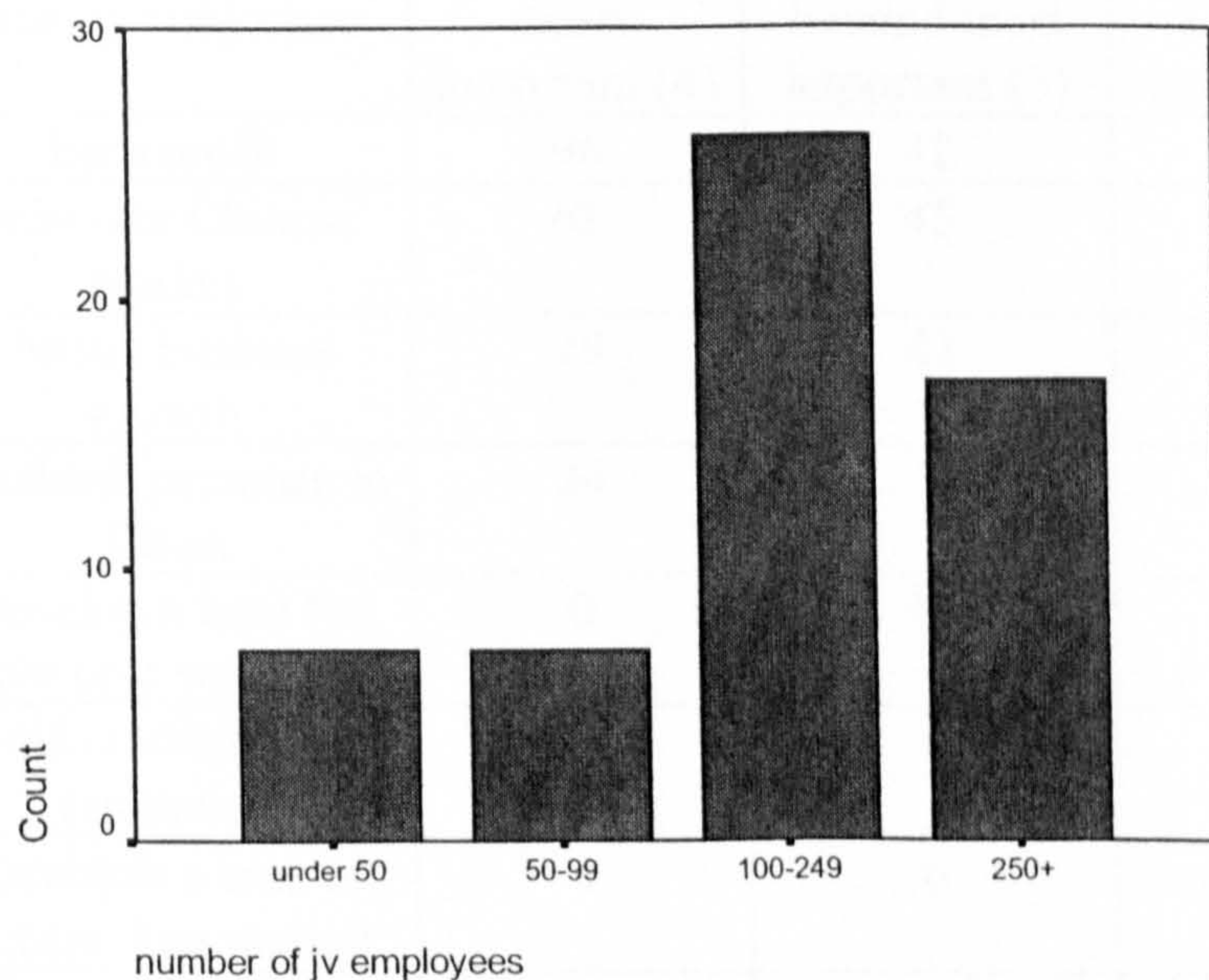
Nature of industry	Frequency	Percent
Chemicals	5	8.8
Food and agriculture	5	8.8
Electronics	6	10.5
Misc light industry	3	5.3
Misc indus equip	4	7.0
Metals	2	3.5
Medical	2	3.5
Building materials	7	12.3
Telecommunications	6	10.5
Engineering services	3	5.3
Resources	5	8.8
Transportation	9	15.8
Total	57	100.0

The IJVs in the sample are geographically located all over China, although the majority are situated in Beijing and Shanghai. The joint ventures in the sample varied considerably with respect to their contractual characteristics. The sample contains both very small and very large companies. They include a wide range of ownership structures (both CJV and EJV). This cross-sectional sample represents a wide range of largely UK joint ventures in China with respect to the industries represented, the years of formation, the locations in China and ownership structure. Therefore, the author is optimistic about the generalizability of the research results.

All joint ventures in the sample fall into the above 12 industrial sectors. Yan and Gray (1994) employed the same categories when researching U.S. – Chinese joint ventures. The majority of the joint ventures in this study operate within transportation (15.8%). This is

probably because transportation is rather broad and encompasses many industries, including: car hire, shipping, delivery, and travel. Similarly, building materials covers construction, retail and property. Nearly 50% of the joint ventures (49.1%) operate within four industrial sectors: Electronics, building materials, telecommunications, and transportation.

Figure 5.1: Bar chart showing number of employees



The majority of IJVs fall into the medium/large size categories. More than 20% having 100-249 joint venture staff. The limited representation of small companies is by no means intentional. Two reasons can be attributed for this. First, difficulty in accessing data on small companies. Second, China is an extremely difficult market to enter for any small business. And is unlikely to be first choice when it comes to internationalisation.

5.2. Strategic objectives of the Western parent company

The three main objectives for Western firms entering China were earn a profit, penetrate the Chinese market and pursue business growth. The list of strategic objectives is adapted from Yan and Gray's (1994) study. Interestingly, the results are very much in line with their results. Table 5.3 shows each strategic objective and level of importance attributed by each of the respondents in the questionnaire study. In order to provide a clearer overview

of the figures, 4 points is attributed to the 'most important', 3 points to the 'second most important' and so on. Therefore each number represents the score for each strategic objective.

Table 5.3: Strategic objectives of Western partners (based on the most important) showing rank order

Strategic objective	Most important (4)	Second most important (3)	Third most important (2)	Fourth most important (1)	Total
Earn profit	96	42	14	2	154
Penetrate Chinese market	68	45	18	3	134
Pursue business growth	28	42	28	1	99
Establish presence in China	24	9	8	5	46
Develop a base for low cost sourcing	0	15	12	4	31
Build credibility and reputation	0	6	12	7	25
Establish a base to access Asia market	4	6	6	8	24
Learn how to do business in China	8	0	0	2	10
Others	0	0	0	1	1

These results differ to that of Hatfield et al. (1998). The author found the goals most frequently pursued as "critically important" were "Product or technology development" at thirty-two percent, "Acquisition of technical knowledge" at twenty-seven percent, "Market or product expansion" at twenty-three percent, and "Market entry" at twenty-two percent. "Profit" was only the 5th most popular choice with 17%. The goals least frequently pursued as "critically important" were "Overcome government barriers" at 2 percent, "Increase available capital" at 5 percent, and "Manage competition" at 7 percent. Given Hatfield *et al.* (1998) based their study on purely U.S. JV's is clearly evident in their results. It is unlikely "Product or technology development" would be a major goal for a Western company forming an IJV in China.

Although many Western investors in China realise the unlikelihood of generating a profit in the short-term, it appears this is still their aim over the longer period. These results correspond to results produced by Osland (1994), that profitability appears to have become a major criterion for success in China. Although the author's research was based on U.S.-China IJVs, interestingly managers across both parent companies viewed profitability as a key success factor. Case study analyses led to the following key findings:

- 1) Performance criteria used by IJV participants converge as interpartner learning increases and 2) U.S. managers may be satisfied with the IJV in IJVs with split control, if the IJV is small.

From this study, perhaps surprising is the low number that considers entering China is important in order to establish a base to access the Asia market. Given China's continuous opening up of its markets, rapid economic development and low labour costs – often referred to as 'the workshop of the world', it is an ideal platform for targeting Asia. Combined, earn a profit in China, penetrate the Chinese market and pursue business growth make up over 64%.

The qualitative findings support feedback from the questionnaire. Certainly a base for accessing the rest of Asia did not prove significant. The reason for this is many of the companies in the quantitative analysis also have operations in other Asian countries. Therefore, China is likely to be viewed as an extension of their Asian presence, rather than a platform for accessing other Asian countries. Several managers stressed the importance of accessing China as a result of its impressive economic growth. Most managers referred to "access market" and "huge potential" as reasons for market entry. Here are some typical comments:

"It was an attractive and growing market we thought we had technology and management skills to offer, we knew that we weren't going to be able to do it as a WFOE,

and I think later in the story, we thought we would get a WFOE license. There was one Japanese joint venture in Shinying, which had got going a lot earlier than us. They had about a 3-year head start and had made absolute advantage of that. We knew our objective of being number one was not going to be realised quickly. This was due to the sheer dominance of this company. We reckoned that a market share of about 15% was quite a reasonable objective. Therefore by doing this joint venture with a company, which, although in some ways very narrow experience outside Jiangsu, nonetheless seemed to have quite dynamic management. To put it into strategy vision, they certainly were able to articulate better than many larger companies, what they wanted and where they wanted to go. Therefore it all seemed to fit.”

(IJV Manager, European Tyre Producer)

Another manager who was involved in a similar industry viewed China as a growing market, and stressed the importance in his company's case of 'first mover advantage'. In other words being able to enjoy the benefits that come with being the first foreign company to access a particular market. Part of this is quickly building brand recognition. He commented as follows:

“Our short term objective is to expand the network and build brand recognition. Those are the two goals we have. Eventually we see China as being not just a very strong domestic market, for car rental leasing. More leasing in the short to medium term, but in the medium to long-term we would expect the rent-a-car market to grow. Ultimately we want to grow with that. Long-term we think there will be a large outbound booking market from China as well as domestic and international people renting cars in China.”

(GM for Asia, European Car Hire Company)

The above quotation not only illustrates the importance of being a 'first mover' but also the continuous opening up of China to the outside world. As a leading car hire company, the Manager from the above case envisaged China becoming a major tourist destination.

The reason being Beijing hosting the 2008 Olympic games. Obviously, an increase in tourist and business traffic is likely to have a positive effect on the car hire industry.

In line with the quantitative findings, the importance of generating profit was stressed by many of the respondents. A third interviewee with over 10 years experience of doing business in China strongly emphasised the ultimate aim for any company is to make a profit:

“Our objectives were obviously to try and create a business in China, create a market share and hopefully to develop a profitable company.”

(Director, UK Engineering Company)

Interestingly, in some cases failure by parent companies to agree on objectives from the outset is clearly evident. Although the following quote is rather lengthy, it provides a nice illustration of how failing to follow the same objectives will ultimately lead to conflict between IJV partners. This remains one of the main reasons for joint venture dissolution:

“One of the things that we sadly underestimated in our joint venture and it only became an issue when CNW took over is the different corporate objectives. Our Chinese joint venture partner wanted to maximise sales and if that meant taking business at marginal profitability they were prepared to do so, partly because they think once you have got into the customer, then you can push the prices up later. If you have a head office as we did back in Milan, which has never done business like that, doesn't want to do business like that, then that's an issue. And similarly if you are lets say at 70% capacity of your existing units then, again, this was our experience, the Chinese partner then wants to think about doubling capacity to put the next units up. For him, ironically getting corporate approval may not be too much of an issue. CNW would say we would not look at this until we are at least 100% existing capacity. That's the sort of thing a Chinese partner cannot understand. Why is it that you've got this thing and you have the opportunity of doubling your profits, doubling your market share, getting additional synergies, we thought you were committed to China, we thought you wanted to grow, we

thought you were the biggest company in the world in cables, how can it be that now you won't increase. That's the sort of thing that you are less prepared for."

(General Manager, UK Telecommunications Company)

5.3 Achievement of strategic objectives

Considering the high failure rate of joint ventures in China, many of the respondents from the qualitative study reported they were extremely happy with their progress so far. In other words, they had achieved their strategic objectives. Considering this is the measure of performance used for this study, this would indicate many of the joint ventures are proving to be successful. It is worth noting there was only one report of an existing area of conflict between joint venture partners. Here are some typical comments:

"We have achieved what we set out to achieve. Absolutely, we have two very rapidly expanding companies. Beijing started two years later than Shanghai that side of the business is actually growing much more rapidly than the soot blower business in this moment in time. Bearing in mind in Shanghai I took over a company, in Beijing I started from scratch with 5 Chinese guys on 18th May 1998. I'm looking at a 30 million dollar business this year!"

(Director, UK Engineering Company)

It is worth stressing that a British man founded the above UK engineering company with many years' experience in the UK engineering industry and a Chinese man with extensive experience of business dealings in China. It is perhaps no coincidence that the firm is experiencing significant success. Their combined cultural and business knowledge are obviously great assets. Also, their first joint venture was founded very much on building successful relationships first. The British man made several trips to China, knocking on doors, seeking a potential Chinese partner. A larger company may have gone down the consultancy route, relying on rule of law, rather than establishing closely-knit relationships.

Another Manager, who has many years experience dealing with the Chinese, commented not only had strategic objectives been met, but also they had exceeded expectations:

“In terms of establishing the pure-line programme, we are right on course. In terms of increasing market share, year-by-year we are doing that. And we now have another five-year objective, which we have just added on internally. And I think, based on the conversation I’ve had with my colleagues this morning, we are already ahead of the first year’s target of that 5-year plan.”

(General Manager, UK Food producer)

A third respondent with extensive experience of working not only China, but throughout Asia, lamented the difficulty in trying to make Chinese clients understand marketing related issues, in particular branding:

“We have achieved our objectives 100%. The biggest challenge in getting the brand accepted is getting Chinese salesman with a Chinese boss, who has been brought up in a Chinese state concept to buy into the concept of brands. They like the technology, but the way they will approach it is to use the technological argument as a way to get into the customer, but then once they have got into the customer, all of the rest of the brand attributes that you want them to push, the biggest difficulty is not actually with the customer, but it is to get the Chinese salesman to buy into the fact that this is a way they can sell. Their reaction easily is that ‘we’ll you don’t understand the Chinese market!’ One of the things I had to do with our visiting experts from elsewhere is remind them that branding concepts that work adequately elsewhere are not enough in China. You want the brand accepted because then you can get a more solid way of extracting the value. If you don’t have a decent price, or if you don’t have the relationships, or if you don’t offer a level of service that the Chinese customer thinks he wants, then that isn’t enough either.”

(General Manager, UK Telecommunications Company)

Although the extent to which strategic objectives had been achieved is the performance measure used for this study. Several managers singled out the level of profits as the key indicator to success. For example:

“We are making good profits in Shanghai and Beijing. The profit margins are in line with the profit margins we would expect to make in our businesses elsewhere. The return on investment is much, much higher. Because we’ve tried to take a very careful view of our investments in China. Bearing in mind our initial investment in Shanghai and initial capital was only 1 million dollars. Our share of that was 550,000 dollars, and I got 200,00 for the injection of technology. In terms of cash investment, it was only 350,000 US dollars. “

(Director, UK Engineering Company)

Most managers expressed a similar opinion to that of the academic research as to why IJVs in China experience high failure rates. A main factor appears to be a difference in strategic objectives from the outset. A manager who managed a joint venture in the healthcare industry, commented as follows:

“I think a lot of them fail because the objectives of the parties are different and there not open to each other. The reason a joint venture in China typically will fail is that the Chinese partner wants to make money (a lot of money) short-term. And they don’t want to put in the effort for long-term investment, long-term profitability. So they actually want money tomorrow. They want the profits next week, you know. And that has all sorts of implications for the cash flow, the reinvestment back into the business, for the direction of the business and so on.”

As stressed in the above quotation, the Chinese seem to take a short-term view to generating profit. This does not mean Western parent companies do not view earning a profit as a major strategic objective; evidence of this is highlighted in table 5.4. For this question respondents were asked to choose the extent of achievement for their chosen

strategic objectives. In order to provide a clearer overview of the figures, the following points are attributed for each response: far exceeds plan=5 points, exceeds plan=4 points, about at plan=3 points, short of plan=2 points and far short of plan=1 point. The actual number of respondents for each objective is shown in brackets.

Table 5.4: Achievement of strategic objectives

Strategic objective	Far exceeds plan (5)	Exceeds plan (4)	About at plan (3)	Short of plan (2)	Far short of plan (1)
Earn profit	15 (3)	84 (21)	60 (20)	4 (2)	1 (1)
Penetrate	5 (1)	64 (16)	60 (20)	12 (5)	1 (1)
Pursue business growth	10 (2)	36 (9)	63 (21)	8 (4)	0
Establish presence in China	0	24 (6)	30 (10)	2 (1)	1 (1)
Develop a base for low cost sourcing	0	20 (5)	27 (9)	1	0
Chinese market Build credibility and reputation	0	20 (5)	24 (8)	2 (1)	1
Establish a base to access Asia market	10 (2)	8 (2)	27 (9)	2 (1)	0
Learn how to do business in China	0	0	12 (4)	0	0
Others	0	0	3 (1)	0	0

As already shown, earning a profit is the most popular strategic objective. Although the sample size is 57, the total numbers 47 as 10 respondents did not consider earning a profit a priority strategic objective. Interestingly, there is an almost equal split between about at plan and exceeds plan. Over 80% of respondents are on target with their strategic objectives or have exceeded expectations. A total of only four respondents are far short of plan. Given the complexities of doing business in China, it is encouraging to other firms considering entering the market that those Western companies that have decided to enter

appear to be having real success. The fact that a total of 17.5% consider earning a profit as not being a major strategic objective, would indicate they may perhaps regard China as being a long-term investment, with importance being placed at establishing the firm in the marketplace 'finding their feet' before realistically earning a profit. Of course, they're maybe a number of reasons for this. Given the complexity of the market, it is unlikely foreign investors will make profit over the short-term.

Table 5.4 also shows profit appears to have the highest rank when it comes to the extent of achievement. Over 50% of respondents believe their profit related objectives have exceeded expectations. This is followed by 'penetrate the market', where 39% believe that have exceeded expectations. The ranking of this question was based on 1=far short of plan, 2=short of plan, 3=on plan, 4=exceeds plan and 5=far exceeds plan. Therefore, the greater the sum, the greater the likelihood the strategic objective has been achieved. Interestingly, only four of the objectives – 'earn a profit in China', 'penetrate the Chinese market', 'pursue business growth' and 'establish a base to access Asia market' received responses based on far exceeding strategic objectives.

Differences in strategic objectives between partners still appear to be an issue. It is well published that this factor is a leading contributor to joint venture conflict, and possibly dissolution. Surprisingly several foreign parent companies mentioned both parties had a different agenda from the outset. For example:

"Right from the very start I would say no we didn't have the same objectives. Our objectives were obviously to try and create a business in China, create a market share for CNW and hopefully to develop a profitable company. There objectives back then were very much about trying to save jobs, trying to get new technology because the technology they had was crap, not only in terms of design, but also in terms of the manufacturing infrastructure and the way they ran their business."

(Director, UK Engineering Company)

It is noteworthy from the above quotation that a major strategic objective for Chinese companies is access to technology. Whilst Western companies place great emphasis on trying to establish a business in China. This supports findings from previous research into joint venture objectives and performance.

5.4 Means of first contact

The most common means of first contact between partners is based on direct contact. For example, one of the respondents made contact with their Chinese partner by simply travelling to China and 'knocking on doors' of Chinese company managers! Another established contact through an existing Chinese employee. This individual already had an extensive *guanxi* network within China. Both interview respondents and those who replied to the survey, indicate direct contact as being the most common form of contact. However, it is worth pointing out, smaller companies preferred to use agencies and/or support from embassies, Chamber of Commerce etc. Other means of contact that were not included as an option were mainly based on connections through business acquaintances.

Table 5.5: Means of first contact between partners

<i>Means of first contact</i>	<i>Frequency of use</i>
Direct contact between partners	47
Via Chinese government	0
Via broker/middleman	5
Other	5
Total	57

Contrary to expectations, a fascinating statistic is the Chinese government is not represented. In reality it is likely several respondents used government contacts e.g. Chinese embassy or agencies. However, they may have simply been involved in advising companies 'where to go'. In many cases trade delegations can help develop business networks in China. These are obviously supported by government, although the subsequent contacts are probably regarded as direct contact. Also, it maybe that

respondents interpreted 'means of first contact' in a social and business sense. The interpretation for this question is based on Yan and Gray's (1994) study. That is means of first contact is defined as 'parties having no previous business relationship'.

Again, comparisons can be drawn with Yan and Gray's (1994) study. The authors also found direct contact to be the main form of first contact (42.72%). This compares to 82.4% in this study. However, contact via the Chinese government also proved to be a popular vehicle (30.10%), compared to 0% for this study. Via broker/middleman also received greater representation. Perhaps one reason for the difference in the results is Yan and Gray's (1994) study is based on IJV's formed between 1981 and 1992. This is a significantly older sample the IJV's used for this research (1990 – 2004). Obviously, shortly after China's open-door policy (early 1980's) there would have been little scope to contact companies direct. The Chinese government being the first point of contact. Another reason is perhaps legal requirements were far stricter during the 1980's, therefore Western firms interested in investing in China had no option but to take the government route for advice and developing relationships with potential partners.

Below are some typical remarks highlighting direct contact as the main method for establishing contact between partners:

"I think to my understanding, it was between top management discussions. I think one of the top management people met our chairman Mr. Wang at that time, and talked about setting up a joint venture. I think at that time a lot of international insurance companies want to come to China, so I think CNW also want to enter the China market. That's why they have a discussion with our bank."

(General Manager, Chinese Bank)

The above example illustrates how joint venture discussions usually take place between individuals at senior management / directorship level. In this case it appears the Western Company sent top management to meet the chairman. This Western firm certainly recognises the importance to the Chinese of sending senior figures.

A Director for an UK food producer commented finding a partner was a natural progression based on over 20 years in China. This is a good illustration of how relationship building 'networking' is not only associated with Chinese culture:

"I think what happened was, over the years of trading directly from the UK we developed relationships with people, and based on our experience of those people, we decided to invest with them. We've been working there since 1980. So we've met a lot of people in the industry. And we looked at the areas we were interested in, then looked for a partner that we knew."

A Director for a UK engineering company provided a detailed account of the lengthy process of setting up their IJV. In the face of competition and going it alone!

"We had a number of meetings and visits to Shanghai after that for the next year or so. At one stage we actually got the cold shoulder for a while, eventually I was told our major competitor worldwide had offered to do some kind of deal with them. That didn't stop me, I continued visiting China. Looking at other places, other factories. Finding out information about the costs in these places. What kind of deal I could get? I was then recalled to Shanghai. I happened to be in China at the time. They sent a fax to my office; I was Hangzhou discussing something else. I jumped on the train to Shanghai. When I got there they were waiting for me at the station with a bigger better car, it was more senior people and when we went to the factory we were in the number one meeting room. There were more senior people in the meeting. When we went to a banquet that evening, it was all the top guys, and they took me to the top place in Shanghai. Back then it was Shanghai mansions. That was September 1995. At that time I was already living in Singapore now. So I was going up and down to China every month virtually. Away for a week, maybe two weeks. During the meeting we had a new memorandum of understanding."

Most of the Western enterprises relied on the personal relationships they had developed themselves overtime when forging their IJV. This is interesting, because such an approach to doing business is perhaps best related to the Chinese.

Very few firms used a middleman to locate a potential Chinese partner. Below is one just example:

“We originally got in by the back door in that we had someone we were working with in South Africa, because we were selling equipment there, who also made point to point radio’s of their own, and they helped facilitate a meeting with our Chinese partner.

Because we have friends in South Africa who helped facilitate the process it was pretty good. Also, they have a guy who is technically there vice chairman whose a Canadian whose job it is to smooth the path of relationships for all the western companies. In terms of managing the relationship and explaining what the Chinese are doing, that’s this guy’s job. He doesn’t speak Chinese, but knows people and has done business there for some years. In a sense the company (CNW) has its own external liaison in him.”

(Managing Director, UK Telecommunications Company)

Although a middleman was used in the above case, it still provides a nice example of how ‘networking’ or personal relationships can help develop a business.

5.5 IMP Constructs, exchange episodes and Performance

First, this section looks at IMP constructs e.g. trust and commitment, along with exchange episodes in order to understand their impact on IJV performance. This is presented based on findings from the qualitative study in the form of quotations and content analysis.

Second, quantitative findings aim to ‘fill the gap’ in the qualitative study by exploring a possible relationship between relationship constructs, as well as determining the most important factors in the relationship. This analysis technique is a popular method for

statistical performance analysis between IJVs in China (see Luo, 1995; Luo and Chen 1997; and Luo 2002).

Certainly from the qualitative findings trust and commitment appear to be important factors in determining the nature of the IJV relationship, subsequently the performance. In some respects the Western firm is seen to be the more trusting towards their partner. As a General Manager for an oil producing company remarked:

“8-10 years improved very much. Still from the Chinese side they tend not to exchange all the information they have. They tend to still hold something until you ask them. The foreign company in general is open, providing all the information for them. The Chinese are improving, still not as much as the foreign company expect.”

As hinted in the above quotation, improved trust and commitment perhaps depends on the length of time the IJV has been established. Also, it is interesting Chinese staff hold onto information until asked. This may indicate the expect relationships to be established at the personal level before sharing information. Rather than simply handing over everything that might be expected.

It may only take one incident to damage trust between partners. For example, another manager stressed that a recent incident had resulted in him trusting their Chinese partner less:

“I’m less trusting based on the consequences of what has happened this week! Because I thought we had agreed the prices, yet they came back and changed the terms. That makes me want to trust them less. Last year we had two channels into China, but turned one of them off because this seemed to work much better. Maybe now not working so well because they are exclusive.”

(Managing Director, UK Telecommunications Company)

The above telecommunications company has rather limited experience of doing business in China. Confusion over terms of the agreement is not uncommon in joint venture relationships. This quote is also a good illustration of how the Chinese have a reputation as being hard negotiators! This particular company has now appointed the services of a Chinese consultancy based in the UK in order to oversee the negotiations / development of the contract etc.

Another manager explained that trust and commitment in China cannot be underlined by a contract, as in China these do not carry the same weight as in many Western countries. This point has been stressed by a number of researchers:

“We do collaborate. We have to very careful whom we work with because we give a lot of technology away. You can sign as many secrecy agreements as you want but frankly the papers worthless in China I think. Everybody knows what everybody else’s business is. That’s one of the reasons I picked Wuhan rather than Shanghai or Tianjin where all the dyestuff companies are, because I wanted to be away from them all. None of our people, although they are qualified chemically they know very little about the commercial side. We have trained our own people on the production side. They are basic chemists but no little about dyestuffs.”

(General Manager, European Chemical Company, Wuhan)

The fact trust is established at the personal level (not underwritten by the contract) is further supported by the following quote:

“It takes time to develop and requires quite a lot of sensitivity to do it. I think that once its there it is extremely strong, but it’s personal not corporate. Its I will do something for you, not because you’ve taken me out to the best restaurants or you’ve taken me round the casinos in Las Vegas, but over time you will have proved yourself to be honest, straightforward and trustworthy. And not just pushing the interests of the foreign partner, but looking at what is good for both, and so on. I would say that once that is there, then it’s strong. Then I think its important not to go overboard about it.”

(General Manager, UK Telecommunications Company)

Evidence suggests an issue affecting level of trust on the part of the foreign parent company is intellectual property rights infringement (IPR). The same manager from the European Chemical Company raised the issue of trust with their Chinese partner. A lack of trust means foreign companies are unwilling to share their latest technologies with their Chinese partner. This may create conflict, and ultimately affect overall IJV performance:

“Intellectual property infringement is still a problem. I think it’s impossible. I have no idea how they are going to sort that one out. We get offered all sorts of things these days from other manufacturers. They have an investment in Qingdao producing new dyes and three years ago I was there. They said ‘Would you like to come and see our factory’ I had a look, then we had discussions. I was waiting for it, they said ‘what about pigments’ are you interested? I said you already have an agreement with another company, but they said ‘Yes, but we always have backdoor for old friends.’”

One parent company executive illustrates the Western concept of ‘systems trust’ by making reference to the contract, rather than developing relationships ‘personal trust’. However, the executive acknowledges this perhaps isn’t the best way to approach an IJV relationship in China.

“They trust us as much as we trust them. Without upsetting them we do check with their banks etc. But that’s a legal thing. It’s just mechanistic. Trust level for us is when the money hits the bank. We carry out our own valuations of properties. They carry out theirs, we carry out ours. So we ensure that all the time we are doing a due diligence style check of the partner. But it really is the property. The licences need to be real, site is real. Even if you don’t trust them it doesn’t matter, if they haven’t got a license to build this store - don’t come back.”

Do they refer to the contract?

“No. We do. Whenever we’ve done that its not been the best thing to do. We know that. We know its not the best way to cement relationships. You know the Anglo-Saxon way is paragraph 4 etc...”

(International Executive, UK retailer, several locations in China)

Table 5.6 is based on content analysis from the qualitative findings. This process involved counting the number of respondents that commented particular constructs as being an important factor in IJV performance. It clearly illustrates the importance of trust and commitment in an IJV relationship. 80% of respondents commented these constructs were important factors in IJV performance.

Table 5.6: Shows content analysis: Factors in IJV performance

<i>Constructs</i>	<i>Number of instances where construct has been discussed as an important factor in joint venture performance (no/% of cases)</i>
Trust	20 (80%)
Commitment	18 (72%)
Co-operation	16 (64%)
Guanxi	14 (56%)
Mianzi	7 (28%)
Satisfaction	6 (24%)
Renqing	5 (20%)
Xinyong	5 (20%)

Table 5.7: Correlation's for IMP constructs and relationship value

Constructs	1	2	3	4	5
1. Trust	1.000	.344**	.626**	.060	.282*
2. Commitment	.344**	1.000	.766**	-.038	.224*
3. Trust and Commitment	.626**	.766**	1.000	.011	.292**
4. Co-operation	.060	-.038	.011	1.000	.156
5. Relationship value	.282*	.224*	.292*	.156	1.000

* = $p < .05$; ** = $p < .1$; *** = $p < .001$

The qualitative findings suggest a relationship between trust and commitment and IJV performance. However, conducting correlation analysis (Table 5.7) aims to fill the gap in the qualitative studies by establishing if there is a correlation between the two constructs and other IMP constructs. Table 5.7 shows the significant relationship between trust and trust and commitment. The trust and commitment variable is a composite measure, developed by averaging the ratings of all the trust and commitment questions. The reliability coefficient alpha for the composite trust and commitment scale was 0.76. The results are presented as trust and commitment as one construct and divided into two constructs as per the questions in the survey. In line with previous studies, there is a clear link between trust and commitment (Morgan and Hunt, 1994).

Co-operation and trust shows no significant correlation. This is contrary to Chen and Boggs (1998) research into long-term co-operation prospects in IJV's in China. Their results strongly support the prediction that mutual trust is positively related to the prospect of long term co-operation. However, Chen and Boggs study is based on purely Chinese JV managers.

Respondents were asked to rank the most important factors in the relationship with their Chinese partner – avoiding conflict, trust, cultural understanding, co-operation, commitment and other. The rank question was ranked as follows: - 6=most important,

5=second most important, 4=third most important, 3=fourth most important, 2=fifth most important, 1=6th most important.

Table 5.8: Important factors

Factor	Most Imp	2 nd Most imp	3 rd Most imp	4 th Most imp	5 th Most imp	6 th Most imp
Avoiding conflict		3	5	26	17	
Commitment	7	20	20	6	3	
Co-operation	11	26	16	3	1	
Cultural understanding	1	3	3	17	21	
Trust	37	7	13			
Other		1				

The above table shows respondents did not consider avoiding conflict as being of any great importance. This is evident as no respondent considered it as the most important factor. A combined total of over 75% considered it to be of 4th/5th most importance.

The blanks in the table represent missing values, perhaps indicating a lack of significance that participants did not feel it worth completing!

Commitment proved to be of greater importance than avoiding conflict with a frequency of 7 in terms of the most important. Over 45% considered it as the most/second most important. This is perhaps not surprising, as it has been identified as being a major construct in the development of successful relationships (Morgan and Hunt, 1994).

As so often a factor leading to dissolution amongst IJVs, it is perhaps surprising that cultural understanding was generally regarded as being of no significant importance. A total of 66.6% viewed it as being of fourth/fifth most important. Only one respondent viewed it as being the most important factor. Given cultural differences is a leading factor in IJV dissolution; perhaps foreign investors in China need to give this greater consideration.

Respondents were given the option of choosing 'other' factor(s) that are perhaps important in the relationship with their Chinese partner. However, this produced only one response (second most important). The respondent did not provide any indication on the

questionnaire as to what the other option is. The reason the 'other' box produced such a low response is perhaps an indication of the thoroughness of the question. Also, these factors have been tried and tested by a number of authors, and thus should provide a comprehensive range of options for participants.

In accordance with many previous studies into relationships, trust proves to be the most significant factor with 64.9% considering it as the most important. Interestingly, no respondent considered it below the 'third most important' factor. This is a clear indication that trust is a major factor in Western-Chinese IJV relationships, certainly from the Western perspective.

Another well-known IMP construct – co-operation received strong support in terms of importance. Nearly 20% of respondents considered it as the most important factor in the relationship with their Chinese partner. This is underlined by the content analysis findings (table 5.6), with over 60% of respondents suggesting it is a key factor in IJV performance. Undoubtedly failure to cooperate between IJV partners is likely to lead to conflict. Consequently this received relatively strong support. The measure used for co-operation in this case has been adapted from Yan and Gray (1994) 'Joint venture partners work together towards the same end, purpose and are flexible in their approach'. A good example of taking a flexible approach and working closely with a partner is the following illustration given by the Sales and Marketing Manager of a UK Scientific research company.

"There's been misunderstanding and we've received communication from the Chinese, which on face value would be rather aggressive as it were. This can be explained in a way to do with the fact that the Chinese, often their English is not very good so their way of expressing things had difficulty with. Things would appear more blunt than a native English speaker would put. That's one thing. Another thing is there may be a fear from the Chinese partner they are going to be taken advantage of. We found these situations can be diffused by informal contact. For example, with our Chinese adviser and by fully explaining all the issues from our point view we would get a very long way indeed."

Many Western respondents commented on the Chinese being extremely tough negotiators. Comments included difficulty in understanding the message received from their Chinese partner, cultural difficulties and the lengthy time period required to finalise the joint venture contract. *“Whether they were seriously interested in us or not. I was getting mixed signals and it was very difficult to interpret these mixed signals. The rival company to ours had actually visited China before us. When I gave my presentation on the first day. I had about 10 members of the observatory staff and others. And there was one piece of paper on the table in front of a rather stern looking figure from Beijing and this piece of paper, which I could read upside down quite easily, was a brief from our rival company.”*

(Sales and Marketing Manager of a UK Scientific research company)

Another manager reported that the best way to negotiate with the Chinese is to adopt their similar hard bargaining tactics:

“They are always trying to get everything they can out of you. They also try every trick in the book. There were a number of times where I just stood up and walked out and said ‘look man if you guys are not going to be serious, I said to my colleague just tell them this is a load of crap and if nobody is being reasonable I might just as well go home. I’m just going out for a walk for 10 minutes and you can discuss it among yourselves. I’m not prepared to move on this point. When I come back I’m just going to pack up and get the hell out of here. I did that a couple of times to get my point. And I did!”

(Director, UK Engineering Company)

The following qualitative example of co-operation focuses on the regular communication between parties:

“The way it works – before the tender bid we were communicating via e-mail, probably every week. Also, Dr Woo would ring up people in China and talk to them quite regularly. On occasion I’ve rang up China as well. I think I’ve been out to China 5 or 6 times over the last 18 months.

This is in connection with this project. Now we are at the stage where a lot of our people are in very regular contact with them in deed. Because the design work still has to be checked out and its got to be approved their end. Quite a lot of communication goes on. E-mail, fax, that sort of thing.”

(Sales and Marketing Manager, UK Scientific Research Company)

5.6 Relationship values and performance

First, a cross tabulation was carried out based on question (50 relationship value) and performance using ‘earn a profit China’ and the extent achieved. The combined relationship value related questions (50,51,52) were based on Likert scale questions. Measures as follows: 1=strongly disagree, 2=disagree, 3=neither, 4=agree, 5=strongly agree. Given the small sample size, performance measures 1=far short of plan, 2=short of plan, 3=on plan, 4=exceeds plan, 5=far exceeds plan was reduced to 1=short of plan, 2=on/exceeds plan. Table 5.9 illustrates the findings from the cross-tabulation:

Table 5.9: Cross-tabulation Relationship Value and Performance

Relationship value – the relationship with our JV partner
has a high value for our firm

Achievement of objectives	Strongly agree	Agree	Disagree
Short of plan	0	3	0
On/Exceeds plan	11	31	2

The above findings show there appears to be a relationship between those respondents considering the relationship with the JV partner has a high value for their firm and the fact objectives are on/exceeds plan.

Table 5.10 shows the level of importance respondents placed towards relationship value with their partner. The descriptive statistics show responses to each question, along with the mean for each of the three questions relating to relationship value. Each question was measured using the Likert scale as follows (points awarded for each question in brackets): Strongly disagree (1), disagree (2), neither (3), agree (4) and strongly agree (5). In this instance the higher the mean indicates the greater the extent respondents agree with each question. Of the three relationship value questions set, viewing the relationship as being of high value to the firm received the greatest support with the highest mean.

Table 5.10: Mean value of relationship value

	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Mean
Relationship value (50)	13	41	0	3	0	4.1228
Relationship value (51)	4	37	13	3	0	3.9649
Relationship value (52)	8	40	8	1	0	3.7368
Total	25	118	21	7	0	

Interestingly, the first two questions (50,51) both produce a mean of close to 4.0. This would indicate that the majority of respondents agree that the relationship with their Chinese partner carries high value. Questions 51 based on comparing the relationship value with other firm's carries a slightly lower mean. This may indicate some foreign companies do not consider their Chinese venture as being a priority in terms of relationship value compared to existing partner relationships.

Although Western companies are willing to invest heavily in their Chinese venture, many indicated the relationship value with their Chinese partner is not high compared to

relationships with other partners. This may suggest that China be not regarded as the main market, but an addition to an already established portfolio. Similarly the investment may be very small as the firm is purely trying to 'test the water' before they make any serious commitment. Generally, some people regard a number of British firms as perhaps being a little too cautious when it comes to investing in China. Tesco is a well-known example. After two years of searching, the UK's leading supermarket has established a joint venture with a medium sized Chinese retailer. The Chinese firm currently generates in the region of £5 million profits per annum. This certainly represents a cautious step for Tesco.

5.7 Chinese cultural values and performance

Chinese cultural values were measured purely qualitatively by analysing data from interview transcripts to see if the key Chinese values of *mianzi* (face), *renqing* (favour-for-a-favour), *xinyong* (trust) and *guanxi* (relationships) are likely to have an impact on the IJV relationship, and consequently IJV performance (table 5.6). It is evident it is still important for foreign companies to understand Chinese cultural values e.g. *guanxi*. For example, 56% of respondents believe *guanxi* is an important factor in IJV performance.

Perhaps evidence attributed to the importance of understanding and adapting to Chinese culture is the number of IJV Chinese managers responsible for day-to-day operations in China. Local managers and expatriates have a better understanding than foreign managers on what it takes to run an IJV on a daily basis. One area of management that is certainly very different to the Western approach is in the area of decision-making. In China it is not part of the culture to question management decision-making, of course largely the opposite can be said in Western business. Also, in business China still very much follows the concept of a collectivist society. The following quote by a British Manager is a good example of how this concept is still followed in the Chinese work place.

"There's still the concept the boss is best in China. You don't question the boss's decision making. And that forms a sort of paralysis in China. Because you don't question ideas. If there's a problem, you let it fester. Let things smoulder on, and eventually the problem hits you in the face."

And then of course there's a question of blame. Who do you blame? In an UK company, accountability is clearly defined. In China, although you may define accountability, they still have a culture of taking accountability as a group, taking responsibility as a group. That's very bad for the business".

General Manager, UK healthcare company Qingdao

The following extract provides a very good insight into how a lack of cultural understanding and possibly unwillingness to adapt to Chinese culture cost a foreign manager his job. This general manager expressed his intentions of always employing local managers. The reason for this is quite simply they are not affected by cultural differences to the same extent as a foreign manager.

"For cultural impact so far, I think our JV is successful because Bill and our company at least knows China. Unlike many foreign expats in Beijing. Even for this office is local. In Shanghai for the first two years we used a foreign general manager after this we changed to overseas Chinese.

It was not that successful with the foreign general manager! From 1996 – 1998 from Scotland! I think after he left China he still doesn't know how to use chopsticks!

One day we went to a small restaurant, he would ask for a knife and fork. They brought a very sharp knife because they don't know the difference! From the cultural understanding side we use more locals, this is quite successful. Our manager in Shanghai is Chinese but studied in Germany.

I think the advantage is less impact on culture if the general manager is local."

(General Manager, Engineering Company, Beijing)

The manager for the above company highlighted the importance of cultural differences on a relationship and suggested these could be largely overcome by employing a local

manager. Interestingly, when deciding whether to employ expatriate or local Chinese managers, one manager commented as follows:

'Expatriates are fine for consultancy work, but simply do not have the same level of contacts as locally employed managers. Also, they tend to demand much higher salaries'

This quote is further echoed in relation to Section 8: 'Cultural differences', this final part of the questionnaire produced some interesting comments:

The following respondent highlights potential problems of using expatriates to deal with local partners:

A difference in management style between professional approach and family style leads to conflicts. The change of expats with different competency and flexibility towards local partner damaged trust which has been built up at earlier stage'

(Senior advisor, UK Chemical Company)

The following two quotes provide an excellent illustration of how not understanding Chinese culture may lead to embarrassment or possible loss of face for the Chinese partner. The first example shows how a foreign partner may create possible conflict by not understanding the concept of face, while the second quote recognises how the Chinese are always wary of not losing face.

'Publicity for a VIP visit to IJV was advertised in the press. No mention was made of the Chinese chairman of the company. This caused a great deal of loss of face for him and local officials considered him unimportant. Mention should have been made in the newspaper article.'

(General Manager, UK Healthcare Company, Qingdao)

'Chinese IJV partner reluctant to address difficult issues which have a negative response in fear of loosing face or causing offence. Frustration, confusion and time wasting ensues unless a less direct approach is taken to obtain answers.'

(Commercial Manager, UK Building Company, Beijing)

In one instance, a leading director remarked they had not experienced any conflict with their Chinese partner, although it has to be said this was the exception to the rule.

'Not applicable to our business because we have not had disputes with our partner'

(Director UK Consultancy (Reid) Company, Beijing)

This respondent regards a major cultural issue being the Chinese appear to be more reactive when it comes to dealing with problems. Where as in UK business a great deal more planning takes place in order to avoid this.

'In the Western business world we tend to spend much of our time trying to identify and plan around potential problems. It's our training. In China business seems to work on the basis 'out of every crisis will come a solution'. Taking issues to the edge of disaster by allowing a crisis to develop for the Western IJV partners executives blood pressure.'

(Executive Director, UK Transportation Company)

Certainly the tradition of the Chinese being hard negotiators was confirmed by many of the respondents. The following two illustrations endorse this. The second illustration is interesting because it shows adaptation to Chinese culture is not only important, but also the fact Chinese negotiators need to adapt to European ways of negotiating in order to perhaps speed up the negotiation process.

'We have had aspects of manufacture which are not under our control. In attempting to discuss honestly the difficulties we face with the Chinese, we have been met with an apparent attempt on their part to take negotiating advantage by making unreasonable

demands. By private and informal contact, we have persuaded them to drop such demands.'

(Head of Sales & Marketing, UK Electronics Company)

'Negotiations with European suppliers of machinery. Partner insisted on getting involved and delays resulted due to applying a Chinese approach to a European situation'

(Group Marketing Director, UK Building Materials Company)

The next two examples highlight the importance of having an excellent interpreter and at the very least having perhaps an open mind when it comes to communication. For example, misinterpretation may have negative connotations resulting in possible conflict between IJV partners.

'Misunderstanding over translation of minor things. They say 'you will do this immediately'. Meaning – 'Please do it as soon as possible'.

(Chairman, UK Electronics Company)

'Any conflicts we have had have involved poor translation during our early involvement with the JV's. This is no longer an issue given our improved resources in this area.

(Director, UK Food Manufacturer)

The following illustration is another good example of the importance of 'saving face' or *mianzi* in China. Obviously Western firms failing to recognize this cultural difference will probably jeopardise negotiations or even more serious consequences of affecting an existing relationship.

'Meetings are used in Chinese culture as an important occasion for showing alignment, not disagreement. You will see many meetings when Chinese attendees won't say any statement, but after the meeting, they express their personal opinions freely.

(Deputy General Manager, UK Chemical Company)

This respondent highlights that cultural differences do exist, but problems over decision-making are largely attributed to the nature of the IJV. In other words it is a 50/50 equity stake. Certainly this makes decision-making problematic because no one party has overriding control.

'It is very early in the development of our IJV and the following comments reflect that I would say we have cultural differences but we do have conflict largely due to the 50:50 nature of our IJV. This means that conflict can occur over business strategy, the pace of development and how to achieve that development.'

(General manager, Asia, UK Transportation Company)

Evidence of the importance of the equity stake is further stressed from a quote from a General Manager, of an UK Telecommunications company:

"One of the other companies, which for me were a clear second choice, which was the new Far East cable company, they are also in Jiangsu province. They were more go ahead, but insisting on 50/50. And in my experience of working in Vietnam, 50/50 is just an unworkable combination. And even 51/49 in China doesn't give you quite enough power. Once you've got the majority of the board, which is what we had with 67/33, you're in a much stronger position."

The huge cultural differences that exist between the West and China have already been fully explained. However, to what extent does culture impact an IJV in China? First, table 5.11 highlights the answers to the questions relating to Chinese culture.

Table 5.11: Frequency table showing answers to questions relating to Chinese culture

	Very high	High	Neither	Low	Very low
Understanding of Chinese culture	21	27	7	2	
Level of Chinese	15	22	3	5	12
Quality of Chinese cultural research	20	17	7	13	
Understanding of guanxi	27	29	1		

Interestingly over 20% respondents felt their company regarded the level of cultural research conducted prior to entering China as low. Considering China is widely regarded as one of the world's most complex markets, this is a significantly high figure. A total of 64.9% considered the research of being a high/very high standard.

A massive 84.2% considered themselves as having a high/very high understanding of Chinese culture. Again, this is to be expected given the stark differences between Western and Chinese culture. In fact the majority of Managers appear to be of Chinese origin. However, 3.5% still regarded their understanding as being low. This is rather worrying, as cultural misunderstandings have already been illustrated as having a major impact on IJV relationships.

In line with Chinese cultural understanding, an equally high percentage (64.9%) regards their level of Chinese as being high/very high. Although it is perhaps important to speak the language when doing business in China, many managers commented that they are happy to use interpreters and that it did not hinder their progress.

The above statistics clearly illustrate how the Chinese concept of *guanxi* is more widely understood in Western society. The reason for this is the large amount of written material on the subject now available. Having said that, many of the respondents taking part in the quantitative study are of Chinese origin, therefore high figures (98.3%) viewing their understanding as high/very high is to be expected.

The following qualitative examples illustrate perfectly the importance of cultural understanding and its implication for IJV performance. There are also some additional quotes relating to Chinese cultural constructs such as *guanxi*.

Although one manager that expatriates tend to be expensive has stressed it, as well as lack the same level of contacts as those locally employed. This manager comments on how using expatriates can be beneficial because they have an understanding of both cultures:

"It's a very complex society. I've been going there since 1980 and I still find it difficult."

But fortunately we employ a person who was born in China, now based in the UK and is an UK citizen. I normally travel with him. He not only interprets language for me, but also culture.

I think one of the big issues we had in the first joint venture was translation. Because we employed a local Chinese who was from Chanjin and we were working in Chengdu and there was a lot of misunderstanding which we of course didn't appreciate at the time. And could never understand why the board meetings we were involved in became particularly difficult. When we changed that person to the person we have now, everything became clear. So I can't think of a specific cultural problem, but certainly understanding language is an issue."

(Director, UK Food Producer)

Some researchers have commented *guanxi* is taking on less significance in China given its legal reforms. Many of the comments received from Parent Company managers contradict this. Clearly *guanxi* is still an extremely important factor when doing business in China. This is highlighted by the following comments:

"If you don't have guanxi in China, then it is very hard. For example, relation with customs office is very important in our industry. Every joint venture here must find the right people to have the relationships Special relationship with the customs officer. After WTO it will be easier for us to contact the customs office."

(General Manager, Logistics Company, Beijing)

The example below, a quote from a General Manager for a UK Telecommunications company stresses *guanxi* remains at a significant level, even as a consequence of China's continuous reforms:

"We have had technical failures in China, which in Western would have been extremely difficult, possibly expensive and perhaps litigious to sort out, but can be sorted out in China by the people who have the good relationships getting their bosses to sit down at

dinner to do the apologies to say that everything will be put right. But in the end, without fines, penalties and without a big fuss. Ok that's at least partly, because the person who did the buying doesn't want to show that he made the wrong decision by getting an unreliable supplier. That's something that is important. Guanxi in all those ways is terribly important. I'm not sure that it is diminishing much as China modernises."

The Chinese respondent felt *guanxi* is becoming less significant, although still remains important:

"Business in China. Guanxi is important to some extent, but I think the situation is changing now. Because guanxi only brings you to the clients, but does not provide you with the profit. I think when the market enters into maturity, professional business integrity will prevail. I mean profit, client, market share will dominate and be targets of top management, not only guanxi."

"Guanxi is still important. I think for guanxi I would like to say in China the reason guanxi is used is the information is not as public as in the UK and USA. Because of the Internet and government you can access information freely. But in China, when you want to enter this building you have to go through several security measures! Also, to my memory when I went to Guangdong provincial government buildings, it took me such a long time to find the right person. If you cannot find the right person they will not give you the telephone number, will not let you in, and tell you who is responsible for the information! That's why I mean guanxi is important."

The same Chinese respondent (Chinese bank) acknowledged their Western partner was aware of the concept of *guanxi*:

"Yes. They are aware of guanxi. So that's why their people always talk to top management because they know Chinese culture is top down. After the company was established everything was going smoothly. We have a board meeting on a monthly basis."

Discussing about the business target, back office establishment, client complaints, our investment performance, IT all of those important issues were discussed on a monthly basis.”

(Director, Chinese Bank)

However, perhaps rather worryingly, one respondent admitted knowing very little about Chinese culture. In particular, the General Manager of a UK Scientific research company admitted to not knowing anything about *guanxi*! However, the same manager stressed the relationship with the Chinese partner, and performance of the venture was working well. This can perhaps be attributed to a Chinese staff member being actively involved with the programme.

“I don’t even know what guanxi is!”

“We were greatly helped by a Chinese consultancy organisation. Dr Woo who is native Chinese and speaks mandarin runs the company. And he came in with some valuable advice at every stage on how to proceed. So although I’m not familiar with many of the cultural things to do with the Chinese, by working very closely with Dr Woo it has helped us enormously. As head of sales and marketing I got to know the project thing you would do in any sales situation.”

(Sales and Marketing Manager, UK Scientific Research Company)

A Director for a UK manufacturing company recognised the importance of ‘face’

“I’ve been going out there since 1978 on a regular basis. I know the Chinese, there’s good and bad in China, as there is in any other country. I think you have to know how to handle them. For example, you have to leave them a way out to save face, and all the rest of it. I think that comes with experience.”

The same person highlighted the importance of *guanxi* by stressing the Director of the company is Chinese. In other words, it is difficult to develop the business without *guanxi* 'personal contacts.'

"We gave the director of the company (Chinese) 10% of the company. He is an old friend of ours anyway. He has certainly the contacts necessary. It is difficult for me to say how difficult it would have been without him. I wouldn't know personally how to start. He helped us get it all together very quickly."

"You can go on forever about cultural values. If everyone that joins the company reads Trompenaars book, that's all they need to know! The relationship with the partner is based on drink, food, and cash! If we can minimise cultural differences by separating it from the equation i.e. the complicated bit isn't there any more. That's in our court and we are in control various locations in China of that."

(International Executive, UK retailer)

"First of all, guanxi is a very important thing in China, but to be honest it is totally misquoted and misunderstood in the West. As a westerner you cannot just walk into a joint venture negotiation with a new partner in China and have guanxi. You just can't. You don't just develop guanxi over night, in one week or one month or even in one year. It's a long-term thing. I'm saying after 10 years I have got some guanxi in China. With people that I have known for 10 years. That I've done things for and they've done things for me. I can pick up a phone and say to a guy 'come on, you need to help me out here'. I have senior Chinese people, people that I know in my own business, staff members that I know can ask and they will do things, but they know they can ask me to do things. For example, some senior guy wants his daughter to come to the UK to study Computer Science but it has to be a top-notch place like Oxford or Cambridge. Can you find out about it, - of course. In terms of a business context, to say that guanxi is important when you just walk in and you start negotiations is just nonsense. You see you don't have it! If you've got the right Chinese employees they may have some guanxi that's useful to

connect with the other side. Maybe they know somebody in the other side, they went to the same University, they come from the same province, and they come from the same town. Or his father knows his father or her father. There's some existing guanxi or you can buy some in. The things are to find out who these guys pals are, then get this guy working for us. You can more or less buy into guanxi or borrow it. If you get hold of the right Chinese staff or contacts."

(Director, UK Engineering Company)

This UK General Manager of a Telecommunications IJV highlights 'renqing':

"The other part of guanxi, the cash changing hands, is still there. It is still an issue. It is still difficult to manage and it is less obvious and less of an issue than it was 5 years ago. Not because there is a changed attitude of whether it is right or wrong, but because it is much more dangerous to do."

The same manager gives the following illustration:

"In procurement it is still not uncommon that a basic price in which two companies would do a deal is 100, then the price will be artificially inflated to 105, and then of that 105 10 will be paid to the salesmen and then out of his 10 he will give 5 to the procurement manager or the person he is dealing with. And then that person he is dealing with will make sure a sufficient number of people on the procurement committee receive their share. It doesn't necessarily mean that a bad procurement decision is taken. It is unlikely these days to mean that the company selected to provide the services, whether those services are not up to standard, not up to specification or shoddy, that was possibly the case 10 or 15 years ago, its less the case now".

Very often it appears cultural understanding is not enough. The following example is interesting because it highlights cultural differences may not only have a negative impact on performance, but also cultural similarity!

“We had a joint venture originally in 1988/89 and that failed. It was a major project, tremendous investment, and I must admit it was something we didn’t want to do. But the Chinese partner said ‘look I’ve got a Taiwanese partner here who’s prepared to put in 30 odd percent, just come in at a small percent just to show willing’. Against our better judgement, we did it! We made this investment, it wasn’t big by our standards, and we felt we could live with it. The problem we found was the Taiwanese and Chinese could not agree on anything. In the four years the joint venture ran, we had one board meeting! And after that they never spoke to each other!

I certainly think there was a certainly a cultural difference between them. And quite often the funny thing is, the Taiwanese said to us the first time we met ‘Of course we are Chinese and understand everything that goes on here. You’re from England, you can’t possibly know. So we will help you, don’t worry about that’! It turned out being the other way round!

(General Manager, UK Food Producer)

This section has provided an interesting insight into culture and performance. Clearly understanding traditional Chinese values such as *guanxi* remains important. Although one respondent admitted not knowing anything about *guanxi*, they employed Chinese nationals and a Chinese based consultancy company to oversee their operations. It can be argued one reason this particular venture has been so successful is because of the key Chinese personnel working on the project and their developed *guanxi* networks within China.

A good understanding of *guanxi* is crucial for Western firms intending to succeed in business in China (Vanhonacker, 2004). Failure to understand and employ the concept is likely to have a negative impact on any IJV relationship. One area of debate is the fact *guanxi* may have lost some of its significance. It can be argued that with the further progress in the market economy and an emerging democratic civil society, the importance of business *guanxi* (in its current form) will be gradually reduced rather than increased (Fan, 2002). Although there was some suggestion of this by respondents, the clear

majority believe it still carries the same level of importance, even as a result of China's legal reforms.

A number of authors support the view that the relevance of *guanxi* is unlikely to diminish. Parnell (2005, p.44) states "Neither *guanxi* in general nor *guanxi* networks in particular are unlikely to be replaced, it is a matter of a new synthesis, a new cultural symbiosis, consistent with China's historical traditions and current socio-political realities, a new variation on the enduring theme of yin and yang." Certainly feedback from the majority of respondents suggests *guanxi* plays an important role in their business operations. In one case (that is known) part of the *guanxi* relationship involved gift giving, in the form of a significant amount of money to a government official. Obviously legal reform is likely to make this more difficult in the future, although the *guanxi* relationship may still be able to be reinforced in other ways.

From the comments provided, there appears to be no relationship between the significance of *guanxi* and company size. However, Hutchings and Murray (2002, p. 45) argue "the extent of influence that *guanxi* has on the ability of individuals to do business effectively and the extent to which these same individuals feel bound by cultural norms of favours is very much determined by the size of the organisation and the international influence of the organisation in question." Although the relationship between company size and *guanxi* is outside the scope of this study, this would be an interesting follow up to this research.

5.8 Future relationship

Table 5.12 shows the likelihood existing Western IJV partners may consider changing their operational mode in the future. In particular, becoming a WFOE.

Table 5.12: Question: You are currently in a joint venture. Do you think you may opt to become a WFOE in the future?

Responses	<i>Number of Replies</i>
We will consider it although we are currently restricted due to the regulatory environment	9
We will definitely opt for WFOE when the regulatory environment allows	5
Content with current operational mode	4

The above question was put to respondents as part of the qualitative research. Not all respondents wished to express an opinion. An interesting theme that developed from UK interviewees is their interest in eventually gaining full control of the joint venture. In other words, becoming a wholly foreign owned enterprise. More than half in the qualitative sample will consider or definitely opt to become a WFOE. This should make interesting reading for British and Chinese companies alike.

Many of the respondents for UK companies indicate a high understanding of Chinese companies. The reason for this is many UK firms adopt a polycentric approach to doing business in China. Managers are either employed locally or from other areas within China.

Table 5.12 is a clear example of how China's rapidly changing legal environment is making Western firms re-think their current strategies. These findings with respect to the increase in popularity of WFOEs, are very similar to those reported by Deng (2001). The author noted that as the Chinese government has relaxed ownership control, an MNE that gained entry to the market in the first place by joint venturing may eventually convert its IJVs to wholly owned subsidiaries by increasing its equity share in and control over them.

The above hypothesis was tested qualitatively during the semi-structured interviews and by analysing the current data on FDI in China. Certainly amongst the larger multi-nationals,

the majority expressed an interest in changing from a joint venture to a WFOE. First, WTO accession is resulting in relaxation of laws governing mode of entry options for foreign companies. Second, experienced multi-nationals that have been based in China a number of years, have acquired sufficient knowledge of the market place in order to operate a WFOE. Particularly as the majority already employ local managers. Of all the interviews conducted in this study, all bar one foreign parent company respondents was non-Chinese. The quotes below provide an indication of the future uncertainty regarding operational modes:

A Shanghai based General Manager of a UK retailer, commented as follows:

“It is a business decision subject to the values your partner brings to you. If at one stage your Chinese partners are not generating value to the venture or shareholders, then you have to think about bowing out and make it wholly foreign owned. At some stage we may gradually, once the law allows us to do that – bow out. But, as I mentioned, if there is commercial reasons or operational reasons, we may think about retaining them. We may even reduce their shareholding. It’s always case-by-case evaluation. Its not saying we must go wholly foreign owned regardless of others contributing value or not. It should be valued based on the partners contribution in each case.”

Another manager working for a transport company in Qingdao, Shandong Province commented:

“We would certainly consider the WFOE route. In the past it was not possible. If the foreign partner can either from the start invest 100% or have a chance to go from a minority to a majority, then definitely go for it.”

“We want that way, but it is restricted at the moment. Foreign investment to buy or own there is still restrictions.”

(General Manager, UK Engineering Company, Beijing)

When asked the impact of the WTO, the majority of respondents felt it was a major issue for their IJV. Again, the ability to change operational mode proved to be of significance.

“WTO entry will have an impact. First of all, we don’t have to be a joint venture format. So pretty soon we aim to be wholly foreign owned. I think this could be mid-term. I think it will definitely happen in the next 3-5 years.”

(Partner, European Consultancy firm, Beijing)

‘You cannot become dependant on an IJV in International business. It is only short-term.’

(Asia Pacific Development Manager, UK Transportation Company)

“ I’m positive to WTO. Because the world they now call a village. People know what the other side is doing. So the Chinese they cannot use their own rule to run their business, so we have to follow international practice and also I think those big multinationals will bring not only their capital, experience, but also good corporate governance, philosophy, those kind of things into the Chinese market. So this will benefit Chinese companies. Because my own view is, market share, clients, competition, they are quite serious. But for Chinese company, if they want to survive or to win in the market they need to learn. When you set up a business you set it up for a lifetime or next generations. Then if the company is well founded, then you can sell to other people and make huge profits. So a good system, huge investment into a sound based company will bring huge benefit for the company. Not only for one transaction, that is not a business.”

(Director, Chinese Bank)

Table 5.13: Table showing preference for WFOEs compared to other market entry options (2002)

	Number of contracts		Amount contracted	
		% Change	% of total	\$billion
Total FDI	34,171	30.70	100.0	82.77
EJV	10,380	16.72	30.4	18.50
CJV	1,595	0.38	4.7	6.22
WFOE	22,173	41.74	64.9	57.26
Shareholding ventures	19	72.73	0.1	0.74
Joint resource exploration	4	33.33	0.0	0.06

Sources: CEIC, Ministry of Foreign Trade and Economic Cooperation

The above table shows WFOEs has now overtaken the joint venture as the main form of market entry method into China. Preference for the WFOE venture has now continued for more than six consecutive years. In 2001, new WFOEs outpaced equity joint ventures at a rate of more than 2 to 1. This trend has been maintained post WTO accession, largely because relaxing of investment regulations means foreign companies now have greater options concerning operational mode.

Feedback from respondents concerning why joint ventures fail is in line with existing research on joint venture dissolution. The sole Chinese respondent is as follows:

“I think the reasons joint ventures fail is cultural differences is one. Number two their business objectives are different and number three maybe both sides have mismanagement. The success of this joint venture is we have a joint goal, we have a joint effort, know where we are going and we follow the market practice so everything is going on well controlled and balanced. So that’s why the company will go up.

Even though CNW have the majority of the shareholders, we are quite open to the minority shareholders, respect their opinions and suggestions. So the relationship is quite open. Also, the company mainly operated by those professionals we hired from the market. So they know the rules.

Regarding Chinese partners, maybe they do not respect international practice. They use their own way of handling the business relationship. I think mutual respect and mutual benefit and also good corporate governance is the key for the success of the joint venture.”

A number of researchers have argued trust and commitment can only be developed over time. In other words the longer a relationship between IJV partners continues, the greater the likelihood of high levels of trust and commitment.

There is certainly evidence of a qualitative nature that there appears to be a positive relationship between time and trust and commitment. The following comments illustrate this point.

Sales and Marketing Manager, UK Scientific Company:

“I guess it’s a question of trust. The longer the relationship develops then perhaps they are more trusting towards us and things become easier?”

“ I think that’s certainly the case”.

Child and Yan (2003) produced similar results in their study. Although in their findings, Chinese parent experience is not associated with IJV goal performance, while foreign parent’s previous IJV experience and the achievement of its goals produced a positive correlation.

CHAPTER SIX: CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This study's objective was to examine the possible impact of IMP constructs and Chinese cultural values on IJV performance. The findings of this research offer the following contributions to the literature: First, they confirm that an understanding of Chinese cultural values is important for IJV performance. In particular, *guanxi* remains an important cultural value. Evidence from this research suggests it is something that must not be dismissed by foreign companies. Second, they illustrate the importance of taking both an emic and etic approach when analysing variables that may impact IJV performance. For example, the majority of researchers into IJV performance have largely ignored cultural values. Third, they demonstrate how IMP constructs and Chinese cultural values can be used to analyse IJV performance. Fourth, they demonstrate that IJVs are losing their popularity to WFOEs, thus a greater number of IJVs are likely to experience dissolution given China's rapid reforms. Fifth, they suggest there is a strong correlation between relationship value, trust and commitment. This corroborates previous findings (Yan and Gray, 1994).

Overall, the findings have a number of important implications, particularly when Western parent companies are considering how to maintain and develop IJV relationships with their Chinese partner. From an academic perspective, it provides an interesting insight into appropriate methods used to analyse IJV performance. What this research has also achieved is a strong indication of likely success factors for IJV relationships. However, the impact of Chinese culture on IJV performance is still in its infancy in terms of academic research and will undoubtedly pose a challenge to future researchers.

Given that the majority of IJV literature has concentrated on performance measures based on mainly U.S. firms, it is inappropriate to generalise these under the heading of 'Western'. Using a sample of mainly U.K. parent companies, this research demonstrates that a number of factors may have a positive impact on IJV performance. These factors go

beyond Western constructs e.g. trust and commitment, to focus on important cultural factors e.g. *guanxi*.

The objectives for this study are as follows:

- Understand why each party wanted to establish the joint venture (strategic objectives)
- Determine to what extent these objectives have been achieved
- Examine how exchange episodes impact joint venture performance
- Learn how different IMP constructs and cultural values in these relationships impact joint venture performance
- Examine the impact of China's WTO entry on the joint venture relationship

First, although many Western partners understand they are unlikely to make a profit in China over the short-medium term, results from this study show 'earning profit' as their ultimate aim, and thus main strategic objective. During the qualitative study, respondents were reminded that 'earning a profit' should be interpreted as simply generating a profit, in other words not based on any particular timeframe. This result suggests that although Western investors in China are widely regarded as being in China for the long haul, they still considered earning a profit of paramount importance. In other words, taking a long-term perspective. This finding corresponds to previous studies into IJV performance (e.g. Yan and Gray, 1994). 'Penetrate the Asian market' was also a popular choice for Western firms. Perhaps surprising was the fact 'establishing a base in Asia' produced a low response rate. However, given many of the companies in this study are already established multi-national firms, it is likely that a base has already been established in the likes of such places as Tokyo or Hong Kong.

Second, to the extent that strategic objectives had been achieved the results suggest that the majority of companies are not only meeting, but also exceeding expectations. This is certainly true in the case of 'earning a profit in China'. This is arguably a long-term objective and very difficult to achieve, yet over 75% of respondents reported being on

target or exceeding plan. Similarly, the qualitative study supported these findings. Considering the complexity of the Chinese market, and the high level of IJV dissolution, it is encouraging to see profit expectations being met. It is likely that many Western companies now have realistic and perhaps conservative expectations towards achieving profit. The complexity of the Chinese market and taking a long-term perspective towards profit generation has been well publicised.

Third, exchange episodes appear to have a significant impact on an IJV relationship. Informational, product, financial and social exchanges were examined. Although this particular research objective was addressed purely qualitatively, of the exchange episodes widely featured in IMP research, social exchange appeared to be the most significant. The majority of respondents made reference to the importance of maintaining close relationships with their Chinese partner. Achieving this requires nurturing relationships at a business and social level. As with other research findings, usually the social relationship was developed first. Financial exchange received limited attention largely because of its sensitivity. Respondents were unwilling to share details based on financial transactions between parties. However, the majority of participants divulged the equity stake of their IJV. Informational exchange produced some interesting findings. Certainly the majority of respondents were happy and willing to share information with their Chinese partner. However, there is a clear indication that lack of trust may result in certain data being withheld. For example, sharing ideas on latest technological developments. It is well known that some Chinese companies use technological advancement on the part of their Western partner to their own advantage.

In terms of the important factors in an IJV relationship it is not surprising trust came out as the leading factor. What is surprising is that 'avoiding conflict' was regarded as not a particularly important factor in an IJV relationship. The reason for this may be because conflict is not viewed as being necessarily all bad. Jehn (1995) notes a certain amount of conflict between partners; particularly if it is task-related conflict may stimulate creativity and improve the quality of decisions, thus positively contributing to IJV success. Also, it

may be that those Western companies have every confidence in their negotiation/crisis management skills to overcome any areas of potential conflict that may occur with their Chinese partner. It is likely that the partner has already experienced conflict with their Chinese partner during the negotiation stage, therefore it is not as daunting as tackling it for the first time.

The following sections (6.1.1 and 6.1.2) discuss in greater detail the findings in relation to IMP constructs/cultural values and their relationship to IJV performance.

6.1.1 Discussion on IMP constructs and performance

Certainly qualitative findings indicate high relationship value is likely to have a positive impact on IJV performance. This result corroborates previous findings (Yan and Gray, 1994) regarding the strong positive linkage between the interpartner working relationship and overall performance.

Qualitative results suggest trust and commitment as important factors likely to impact IJV performance. Previous studies into IJV performance and commitment tend to show trust and commitment as a key determinant of IJV performance (Killing, 1983; Beamish and Banks, 1987, Hu and Chen, 1996). For example, in their study of sino-foreign joint venture performance, Hu and Chen (1996) conclude that performance is more dependent upon partner-related factors such as partner commitment, and number of partners, than joint venture or environment related factors such as product/industry characteristics and location of joint ventures. However, the inclusion of trust as a variable does not always work the way one might predict (Han and Wilson, 1993), which may be part of the difficulty in defining trust within studies. Anderson and Narus (1990) point out that 'when asked about their perceptions of their firm's trust in a working relationship, informants give a present state report; that is, they answer on how much their firm trusts the partners firm at the current point in time' (p.54)

Results show trust has a direct positive impact on commitment. Trust diminishes the perceived risk and vulnerability in a relationship and thus leads to a higher commitment to the relationship (Ganesan, 1994). The findings support much of the literature by producing a high correlation between trust and commitment.

A greater number of options open to foreign companies, may mean that they view the joint venture as a short-term commitment, possibly with a view to 'going it alone' when the regulations allow. Wong *et al* (1999) notes, a joint venture should be viewed as a means to an end rather than as an end in itself. Because the Chinese have made great strides in adapting to the Western mindset, an environment now exists in which foreign managers can realistically envision greater control over their Chinese operations and seriously consider the creation of wholly-owned subsidiaries, a strategy not previously thought realistic. Subsequently, why be committed to a relationship if the underlying aim is to become a WFOE?

Third, regarding the relationship between co-operation and IJV performance, again, qualitative results show co-operation is an important part of many IJV relationships. Failure to co-operate thus leading to possible conflict and dissolution. The importance of co-operation to IJV performance is echoed by Kanter (1994) who suggests a positive relationship exist between interpartner co-operation and high levels of JV efficiency and profitability. Pearce (2001) found a positive relationship between co-operation and performance. However, the author used three dimensions of co-operation – flexibility, information exchange and shared problem solving. Interestingly, the combined dimensions produced a significant relationship, but when treated separately, only inter-parent flexibility made a significant contribution. Shared problem solving was marginally insignificant, while information exchange received no significant support. Tiessen and Linton (2000) found the degree of parent co-operation was strongly linked to venture performance. However, his study was based on Japanese-North American ventures. Lax and Sebenius (1986) comment that partners cannot be completely trusting because this

makes them too vulnerable, but they cannot be completely untrusting because it harms cooperative efforts.

Fourth, with regard to time, qualitative findings suggest a relationship with trust and commitment. However, perhaps further research needs to explore this. For example, a Western partner may be less committed to the relationship because they envisage buying out their IJV partner within 12 months. Thus commitment in the form of financial input, knowledge transfer and long-term planning will become less obvious.

A Western company may have pre-conceptions of how much they can trust their Chinese partner. This trust is likely to have been formed during the exploration process. For example, a UK company in the exploration stage of an IJV may have high levels of trust and commitment in the outset as a result of a positive negotiation process.

6.1.2 Discussion on Chinese cultural values and performance

These findings contradict those of Killing (1983) who found that many U.S.-Japanese joint ventures established in the 1960s failed because of cultural differences. "It is particularly difficult if the parent firms are of different nationality and of markedly different corporate culture" (Killing 1983, p.57). Datta (1988) argues the impact of cultural differences on performance is normally a function of the type of venture. The author highlights cultural problems as being mainly attributed to shared management ventures, rather than dominant partner ventures. Other researchers (Mjoen and Tallman, 1997) found limited support that cultural distance related negatively to performance of the joint venture. There is no doubt that joint ventures continue to fail because of cultural differences; however, Killing's study was conducted at a time when China's open-door policy was still in its infancy. Consequently, lack of Chinese cultural awareness on the part of Western parent companies was likely to be far greater during the early 1980s than today. Undoubtedly, Western firms are now far more aware of the complexities of entering China, as well as the need to overcome these complexities by employing Chinese staff. Although Chinese cultural

understanding appears to be important for Western companies, it is by no means a major issue compared to technology. Li *et al* (2001) compared performance JV performance between East Asian collectivist cultures and Western individualistic cultures. Although the author hypothesised that JVs from a similar culture would achieve better performance, this was not supported. Subsequently, a similar culture is not always the most valuable resource affecting firm performance. This is further supported by Park and Ungson (1997) who note cultural distance does not have an effect on JV dissolution, however, their study showed U.S.-Japanese joint ventures actually lasted longer than U.S.-U.S joint ventures.

Although many previous studies into IJV performance and culture relate to cultural distance, similar conclusions to these studies can be drawn. For example, Glaister and Buckley (1999) found that cultural distance is not significant in relation to performance. Although cultural understanding has a slightly different interpretation, the findings of this study lead support to the fact that working with a culturally very different partner maybe beneficial to a relationship. This is as long as partners recognise and appreciate the differences in culture and regard this, as an opportunity to learn new things and thus expand the capabilities of the organisation then this may be a source of strength to the alliance.

The importance of *guanxi* is considered a vital ingredient to a successful relationship in China (Child and Lu, 1996). However, many of the respondents, particularly ethnic Chinese viewed it as having less significance. This is largely attributable to China's legal reform, in line with becoming a market-based economy. Although only tested qualitatively, the majority of respondents regarded Chinese cultural values, *guanxi* in particular as still an important concept in Chinese society. Many felt failure on the part of foreign companies to learn and perhaps adopt *guanxi* may lead to conflict within an IJV relationship, thus having the potential to seriously affect IJV performance.

The strong positive correlation between relationship value, trust and commitment is not surprising. In order for IJV relationship to be successful they need to be built on trust and

commitment. A high level of trust and commitment between partners results in a greater sense of value towards the partnership. The results support to that of Walter *et al.* 2000 who found strong empirical support that trust is significantly related to customer value, which in turn has a strong positive effect on the customer's commitment to the relationship with a supplier.

6.1.3 Examining the impact of China's WTO entry on the joint venture relationship .

Subsequent to WTO accession the majority of Western parent company interviewees would like to see their existing IJV relationship develop into a WFOE. Overall, this received very strong support. Some of the earlier comments provided by respondents are clear evidence of this. A significant theme that has developed is the notable interest of Western parent firms in changing their operational mode from one of a joint venture, to WFOE. Evidently, in recent years the favoured mode of foreign market entry has changed from EJV to WFOE.

As revealed, the research into why WFOEs replaced EJVs as the most popular means of entering China has received limited attention from researchers. This is perhaps surprising given the implications for both Chinese and foreign companies. Based on Deng's (2001) three key factors driving foreign firms to choose WFOEs: (1) the disappointing performance of too many EJVs, (2) the inherent advantages of WFOEs, and (3) changes in government regulations and a less uncertain environment. In terms of this study, the main reason appears to be the latter. Greater flexibility to the regulatory environment means Western firms are no longer restricted to the IJV option. Some of the comments are inline with Yan and Warner's (2001) suggestion that as foreign companies keep acquiring practical experience in China, they are increasingly likely to 'go it alone' to pursue success in the China market. This is certainly true of the more established IJVs.

However, feedback from some respondents corresponds to Yan and Warner's (2001) argument that although China's WTO entry appears to favour WFOE development, the situation can be multi-faceted. One large multinational company that has a number of joint ventures in China did not expect all of them to become WFOEs. This is for the simple reason that more than one of the IJVs is located in an area that is underdeveloped, subsequently making it difficult to establish a business without the know how of a Chinese partner. Reasons why a WFOE may not be appropriate include geographical region along with nature of the industry. Some industries still have restrictions placed on them by the Chinese government, although many have now been relaxed in line with WTO regulations. Certainly one area of the country where the Chinese government is actively encouraging foreign companies to invest is its Western regions. Western cities such as Kunming are far less developed than Shanghai, Guangzhou and Beijing. A major stumbling block for foreign companies entering western regions is the lack of government experience of handling FDI. Given this situation, initially an IJV may be the superior option.

The majority of firms in this research appear to be seriously committed to remaining in China for the long-term. Evidence of this is the high level of financial investment made. Based on Luo and O'Connor's (1998) approaches to increasing commitment in joint ventures, certainly many of the firms in this study can be described as strategic investors. This is probably because the majority is experienced multi-national companies that view China as a vital component of their business portfolio. SMEs are perhaps more likely to be opportunistic experimenters, given that entering China for these firms is often a case of a long-term learning process. Similarly, they do not have the resources for serious commitment. Finally, dominant local player describes companies with a high level of corporate commitment to investing in China. A selection also falls into this category. In particular the UK retailer with ambitious plans to develop a large number of stores over the next five years.

6.2 Contribution statements

First, from an academic perspective, this research has extended and broadened the IMP

Relationship and interaction approach and the theoretical frameworks by introducing Chinese cultural values. Although the importance of culture and its impact on relationships has recently been recognised by IMP researchers (Kriz *et al.* 1999; Fang, 1999 and Fang and Kriz, 2000), it has not been analysed in the context of IJV relationships. This study not only analyses the possible impact of Chinese cultural values on IJV performance, but also well documented IMP constructs such as trust and commitment. Certainly these are important factors relating to relationship value. The significant positive correlation between trust and relationship values is a clear indication of this. However, when a Western company enters a complex cultural environment such as China, it is foolhardy to ignore the cultural aspects of that society.

Qualitative findings in this study make a significant contribution to the understanding of interpartner relationships within IJVs. Generally they support existing research by illustrating the nature of *guanxi* and its importance to IJV relationships. However, a distinction can be made in that this research provides a number of interesting quotations from mainly UK parent company managers. Although mainly Chinese in origin, these respondents provide an overview of *guanxi* in relation to working for a Western parent company. The majority of previous research into *guanxi* has been based on the Chinese parent perspective and/or U.S. – Chinese IJVs. Results show that the majority of companies have a pretty good grasp of the concept of *guanxi* and believe it is still vitally important to understand its significance when doing business in China. Admittedly, the high level of recognition maybe down to the fact many of the respondents are of Chinese origin. Having said this, one respondent didn't know what *guanxi* was! However, it is worth noting that the key individual in the IJV for the Western Company was an individual from mainland China.

Second, in terms of contribution to management, findings can be used as an invaluable form of information by Western firms considering entering China, as well as those already operating within the Chinese market. Given the majority of Western parent companies originate from the UK; this research fills a much-needed gap into joint venture

relationships between UK and Chinese parent companies. The majority of research refers to 'Western' companies in China, the majority of which relate to 'U.S.' firms. Obviously, cultural differences exist between UK firms and U.S.; these cultural differences have been highlighted in this study. It has taken an in-depth look at Chinese cultural values and their impact on IJV relationships. Much of the existing literature on doing business in China discusses the concept of '*guanxi*' but fails to explore other cultural issues e.g. *renqing*. Also, methodological triangulation using case studies along with a questionnaire survey has enabled the exploration of IJV's and the measurement of key constructs in a deeper context. It allows reference to be made into real life cases, together with the publishing of quotations from managers that have first hand experience of doing business in China. Together these provide a highly useful insight into dealing with the Chinese and maintaining successful business relationships. Some of the illustrations provided may be used as a possible benchmark by companies considering entering China e.g. how to tackle cultural differences, how to choose between an IJV and WFOE and reasons why firms establish IJVs.

IJVs still have a reputation as having a high dissolution rate. Many of the factors that lead to dissolution have been addressed in this study. For instance, failing to understand and adapt to Chinese culture. However, there is now research evidence that JV dissolutions are much more likely to be the results of managerial preference based on mission achievement than consequences of poor performance. Simply put, many joint ventures are voluntarily dissolved when the goals for which they were established are met or a partner changes their corporate strategies (Hatfield *et al*, 1998).

Key findings from this study were reported to the interviewees. The mechanism used was to send them a copy of a published paper based on some of the findings from this study (Wilson and Brennan, 2003). Favourable feedback from the interviewees was received; indicating that they felt the research had made a contribution to our understanding of the management of UK/Chinese joint ventures. An illustration of this is highlighted below:

“Your paper published in the Asia Pacific Journal of Marketing and Logistics goes much of the way to describing the disadvantages of a joint venture. There are many more than you have mentioned such as interviewee time constraints and the politics of not wishing to upset the partner.

I believe you have the opportunity with your paper as a basis to go deeper and provide a very useful guide to companies into China for the first time wishing to set up business but not knowing the first thing about JV pitfalls and regulations.”

(General Manager, UK Healthcare Parent Company)

6.2.1 Managerial implications

The research findings highlight some interesting management implications. For example, managers should put more emphasis on understanding cultural differences. Some companies admitted to conducting very little research into cultural differences, preferring to adopt a ‘learn as we go along’ approach.

All but one of the firms prefer to adopt a polycentric approach. By employing local managers Western companies can reduce labour costs, at the same time train staff to suit their own corporate culture. Expatriates are not only expensive, but may find it difficult to adapt to the local and corporate culture. Employing non-Chinese nationals to manage in China still appears to be somewhat of a rarity. The UK manufacturing company in Qingdao have employed an English person to oversee their joint venture, however the person in question is fluent in Chinese and fully appreciates Chinese culture. The overall results suggest a strong linkage between cultural values, exchange episodes, interaction constructs and IJV performance. There was a consensus by many of the respondents that trust in particular between partners can greatly improve the achievement of both partners’ objectives.

On the basis of the findings, a simple causal model of IJV success factors is put forward in figure 6.1. This is referred to as the ‘6C model of IJV success factors’. The diagram

includes 6 fundamental antecedents for IJV success (1) Commitment; (2) Cultural understanding; (3) Control; (4) Communication; (5) Cooperation and (6) Consensus. This model hypothesises that the greater the level of each 'C' factor on the part of the Western parent company, the greater the likelihood of improved IJV performance. It makes a net departure from other studies into IJV performance by viewing performance as an outcome of 6 key factors. Previous studies have tended to focus on measuring IJV performance and the impact of control on performance (Geringer and Herbert, 1989).

In figure 6.1, consensus and cultural understanding are expected to have a direct influence on co-operation and commitment. Cultural differences and failure to agree strategic objectives from the outset have already been proven to be leading reasons for IJV failure. Correctly addressing these is likely to lead to co-operation and commitment. These constructs have been shown by IMP researchers as important constructs in business-to-business relationships. Morgan and Hunt (1994) found that shared values positively influence both relationship commitment and trust, and that relationship benefits also positively influence commitment.

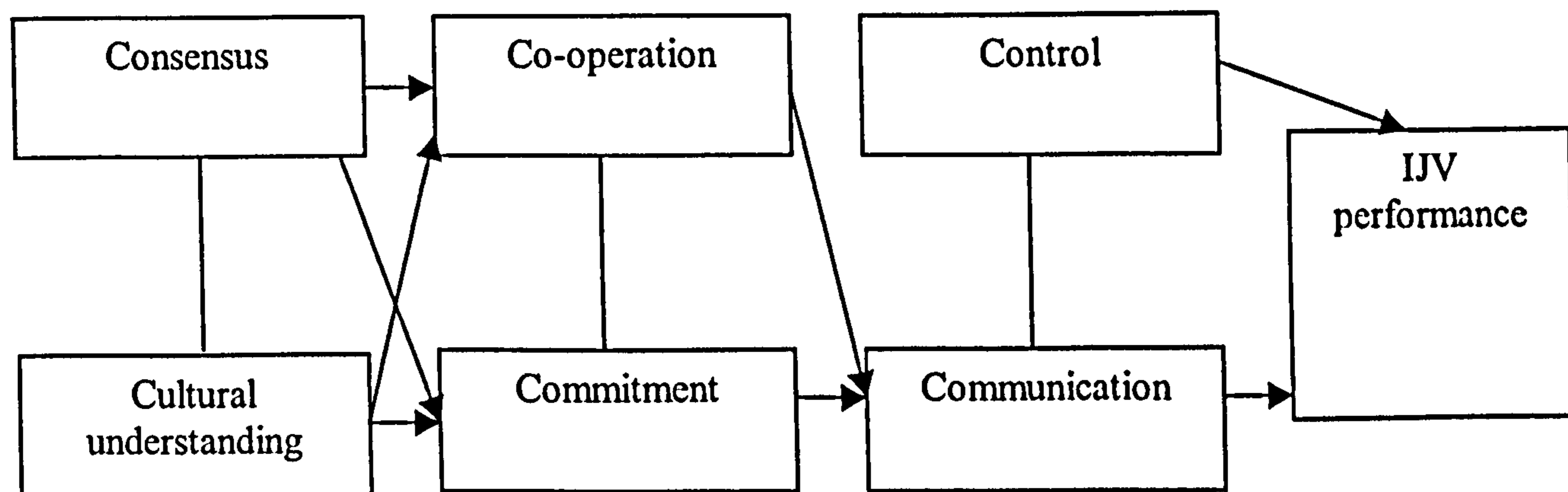
Improved communication is likely to benefit co-operation and commitment. Again, comparisons can be drawn from Morgan and Hunt (1994). The Commitment-trust theory suggests that communication positively influences trust. Regular dialogue between IJV partners can only help to cement an IJV relationship. This leads to not only a greater trustworthy relationship, but also a positive impact on performance. Finally, control in an IJV can be defined as the process through which the parent companies ensure that the management of the joint venture conforms to their interests, thus protecting their proprietary assets (Geringer and Herbert, 1989). This is something that is agreed from the infancy of an IJV relationship and is certainly an important part of ensuring the UK parent's interests are being best served. Governing effective control over the IJV is not directly linked to the other 'C' factors. Control could be described as being an exogenous construct, as it is causally independent from other constructs in the model. However, increased control based on governing the IJV and level of equity stake may have an impact

directly on performance (see control p.217).

Caution must be exercised in generalising the results of this study to other joint ventures, particularly those involving other British parent companies. While every effort was made to ensure the objectivity of the interview questions and case selection, the sample remains small in relation to the population. A larger sample based on successful and unsuccessful IJVs (UK/Chinese) needs to be undertaken. Causal models, which formally test the relationship hypothesised in figure 6.1, are needed to empirically substantiate or reflect preliminary findings of this study.

Figure 6.1 builds on Yan and Gray's (1994) model by incorporating the findings from this study and is intended to be a useful guide for foreign companies considering entering China.

Figure 6.1: 6C model of IJV performance success factors



Commitment

Results from this study are certainly in line with those of Hu and Chen (1996). As mentioned in the literature review, these authors concluded that performance of Sino-foreign joint ventures is more dependent upon partner-related factors such as commitment

rather than environmental related factors and location of joint ventures. Content analysis shows that this construct is considered to be a key factor in IJV performance. The strong correlation with trust suggests commitment to a relationship is largely built on trust. The importance of trust and commitment in relationships is in line with many other studies in these constructs (Morgan and Hunt, 1994).

Cultural understanding

The ability to understand and willingness to adapt to culture is an important part of IJV relationships. As illustrated, many IJV's fail because foreign partners fail to recognise cultural differences. Although some of the respondents commented *guanxi* might carry less significance than in the past, the majority of respondents still considered it an important factor in IJV relationships. Quotations from the qualitative findings support the importance of Chinese cultural values. Failure to understand and adapt to these on the part of the Western firm has proven to be a major factor in IJV dissolution.

Control

A critical determinant of IJV performance appears to be the control exercised by parents over ventures' activities (Schann, 1983; Killing, 1983). There are two channels of control in China – external control and internal control. External control is exercised through government economic regulations and institutions; internal control is exercised through Chinese management partners (Child, 1994).

A study by Li and Clarke-Hill (2004, p.59) reported that “among 48% of UK-Chinese joint ventures the British party may have advantage over the Chinese party in exercising internal control due to the majority ownership.” The authors also explain that where a Chinese company has the greater equity stake, this is likely to lead to control being exercised by appointing chosen Chinese members to the board, perhaps even the Chair coming from the Chinese parent. There is some evidence that dominant partner IJVs tend to be more successful than 50/50 arrangements (Killing, 1983). However, Killing's study

is now somewhat dated in that Chinese regulations have changed to the extent those foreign firms commonly have the larger stake. Gerninger and Herbert (1989) have advocated that some combinations of strategy and control are likely to lead to superior performance. However, the authors highlight the complexity of control and performance by stressing the difficulty in understanding which IJV activities to control, the extent of control to exercise, and the control mechanisms to employ.

Control is not only about equity stake. Control also relates to how the joint venture is governed on an everyday basis. For example, having experienced management that understands Chinese cultural issues, as well as having the ability to make operational decisions is important for any IJV. Control is an important issue for any foreign company entering China, particularly with regard to intellectual property protection. IPR protection is only one way to protect patents and designs. The ability to exercise control can help make sure that the foreign firm's technologies are not divulged to third parties, or even worse exploited internally. Obviously if this situation was likely to occur within an IJV it would not only lead to conflict, but ultimately lead to dissolution, having a negative impact on the IJV relationship.

What was clearly evident from the majority of respondents interviewed was that they had a clear understanding of how to ensure management control. Effective control is likely to lead to improved performance and greater efficiency. Foreign companies need to note 50/50 IJV's are likely to have problems with management control, as there is no overriding decision-maker. Therefore control is an important consideration prior to engaging in an IJV relationship.

Communication

Communication is an important part of maintaining business relationships. Regular communication between IJV partners can help to cement the relationship. Many respondents reported that they kept in regular contact with all key stakeholders in the business, in particular parent companies. Given that investment comes from the parent

firms, it is important to communicate performance on a regular basis. Also, failure to communicate to their Chinese partner on the part of the Western parent may be perceived as lack of interest, or even worse, value to the IJV relationship.

Co-operation

Co-operation has been proven to be an important construct in IJV relationship (Yan and Gray, 1994; Kemp, 1999). Certainly qualitative findings indicate co-operation is an important factor in maintaining a successful IJV relationship. As previously illustrated by this comment:

'Another thing is there may be a fear from the Chinese partner they are going to be taken advantage of. We found these situations can be diffused by informal contact. For example, with our Chinese adviser and by fully explaining all the issues from our point view we would get a very long way indeed.'

Content analysis highlighted in the results section shows co-operation was discussed by the majority of respondents as an important factor in joint venture success. On this basis it has been included as an important factor for foreign firms to consider before entering China.

Consensus

Agreement based on strategic objectives from the outset of an IJV relationship can dramatically help reduce the chances of failure. Unfortunately, a number of respondents in this study highlighted their Chinese partner appeared to have a totally different set of objectives! Thus increasing the possibility of conflict later in the relationship. Many respondents reported failure to agree strategic objectives from the outset as the main reason for IJV failure.

Once again, foreign companies should consider addressing the above 6 factors prior to forming an IJV relationship. In doing so, it is highly likely they increase the chance of forming and maintaining a long-term successful IJV relationship in China.

6.3 Limitations of the study

A number of caveats must be issued with the findings of the study. These can be divided into the following categories: 1) level of interaction, 2) the sample population chosen, 3) logistical problems, 4) measurement issues and 5) time factors.

6.3.1 Level of interaction

An example of one limitation is the level of interaction. For example, interaction can refer to firms, departments or individuals. In this case it was based on those individuals who were involved with setting up the joint venture and interacting largely with the Chinese parent company. Unfortunately, not all directors were available for interview; therefore the majority of data was based on interviews with International executives and managers. Interviews with directors may produce a different set of findings, as they are heavily involved in the decision-making process of establishing the joint venture.

As the Interaction codes were applied, e.g. types of exchanges. Not all respondents were willing to divulge information regarding financial exchange.

6.3.2 Sample population

The sample population is another limitation in that there is not a definitive directory that includes all of the Western-Chinese joint ventures. This point is echoed by Glaister *et al* (1998) who comment 'a major difficulty facing IJV researchers particularly those concerned with the examination of UK firms activity in IJVs is the lack of an official database'. Although a sample of 57 is justifiable based on statistical analysis, a larger sample would increase the confidence in the results. Consequently a database was compiled using a variety of sources. These include 'Doing Business in China', China-Britain Business Council, and 'Foreign Direct Investment in China'. Given there are

literally thousands of joint ventures in China; the lack of a reliable directory was disappointing. However, it is acknowledged there was no reliable sampling frame, thus resulting in a small sample and a sampling methodology that was not ideal. However, under the circumstances the data is the best available.

Data on JV partner ties and performance are not widely available. Ideally, this information would be collected from three informants representing each main parent and the venture itself, though this would have significantly driven up data collection costs and further reduced the response rate (Tissen and Linton, 2000). Shenkar (1994) echoes this view 'two main problems should be noted in regard to publications on joint ventures in China. First, because large-scale studies are frequently directed towards the business community and require substantial funds to prepare, they are usually priced (when at all available) well beyond the means of the academic market. This means that knowledge, which is so essential to academic learning, is not disseminated.

6.3.3 Measurement Issues

Whilst several different variables were used to analyse their impact on joint venture performance, there may be other variables that affect performance, which were not included in this study. For example, macro environmental factors such as political variables may enhance or hinder performance. The Chinese government may provide tax incentives for foreign firms entering the country; also some industries may be more advanced in terms of technologies than others may. This also applies to stakeholders. Also, it should be noted this study is based on joint ventures in a turbulent environment in China. China's accession to the WTO in December 2001 means entry regulations for highly attractive industries such as telecommunication and finance will be relaxed over a five-year period. As previously mentioned, it looks as though joint ventures are losing their appeal, as other forms of market entry modes are made possible e.g. franchising.

China's rapidly evolving legal system also means existing regulations regarding joint ventures may change. In some industries the foreign partner is limited to a maximum 50%

equity stake in a joint venture relationship, changes to the equity stake will undoubtedly have an impact on the joint venture. Particularly from the point of view of decision-making.

To overcome these limitations, future research should concentrate on different geographical regions, foreign companies other than the UK, and longitudinal studies. Certainly a key issue is that this research only surveyed one parent in the IJV triangular relationship. This research is consistent with most research into IJV performance (Mjoen, 1997; Geringer and Herbert, 1991). However, future work including the complete IJV triad would be preferable. Research on different types of variables is also required. Incorporating different approaches would provide a better insight into antecedents of joint venture performance.

Cultural issues may have affected measurement of feedback from Chinese interviewees. A problem in conducting interviews with Chinese respondents is 'face' (Shenkar, 1994). This concept, or to give it its Chinese term '*mianzi*' has been widely discussed in this study. Considering a British researcher, accompanied by a translator, conducted the interviews, a manager may have given an answer that allows the saving of face. Shenkar (1994) mentions the saving or even enhancing of face may be for ones own face, or possibly the face of a colleague(s).

6.3.4 Time factors

Given the fast paced change of the Chinese economic and legal climate, conducting a longitudinal study may produce different findings affecting joint venture performance. The difficulty with this type of research is establishing a suitable time period and gaining the willingness of respondents to participate in such a study. Also, it concentrated on recently formed IJV relationships. Ultimately correlation among respondents may prove different for joint ventures that have been in existence over a longer period of time. This particular limitation into IJV performance has been previously cited by Geringer and Herbert (1991).

Despite the above-mentioned limitations, this research has provided empirical evidence regarding the reliability of and correlation between various constructs and IJV performance, as well as providing insights into practical cultural issues. The results of this study make a significant contribution to the IJV literature.

7.0 Environmental Change

Nowhere can the pace of environmental change be more evident than in China. Acceptance into the WTO means that the pace of change is likely to become even quicker during the next 2-3 years. Last year China overtook the U.S. as the world's leading recipient of inward foreign direct investment, this trend is likely to continue. Also, arguably the main other factor which is influencing change is China's preparation for the 2008 Olympics.

In terms of foreign direct investment, relaxation of laws applicable to foreign firms considering entering China means the joint venture is already becoming a less favoured form of market entry. Figures show many firms now prefer the WFOE method instead of the joint venture.

Based on the findings from conducting interviews with a number of UK firms. As previously highlighted, many are considering pulling out of their joint ventures and becoming WFOEs. The following case example is an excellent illustration of this:

Consumer products maker Proctor and Gamble (P&G) bought the remaining 20% stake in its China joint venture from partner Whampoa China Ltd for US\$1.8 billion this year. The JV was set up in 1988 when P&G began operations in China. A spokeswoman from P&G said results from its China business give it confidence that it has the right people, the right business strategies and the in-depth understanding of local consumers and retailers to go it alone.

Source: (xinhuanet) Aug 24, 2004 'to be or not to be a WFOE'

The advantages are obvious. A WFOE provides full control and profits no longer have to be shared with partner(s). There is still the question of cultural differences. But, the feedback received from interviewees suggests this is less of an issue than previous years. China is fast moving towards a market economy. Although *guanxi* will remain an important part of Chinese society, feedback from this research highlights other ingredients are required in order to ensure success. These include understanding China's changing legal system, as well as both local and central government.

Given the fast paced changing macro environment, this produces implications for this type of research. As recent statistics, along with evidence from this study suggest the growing interest in WFOEs means the percentage of joint ventures in China in relation to total FDI may decrease rapidly. Or, the Chinese government may change legislation governing establishing and operating joint ventures in China. Whatever the short, medium and long term holds, it must be emphasised that the findings from this study are likely to be extremely time sensitive.

In order to attract investment from the world's leading global brands China needs to continue to tackle the problem of Intellectual property right infringement. The earlier illustrated 'SSL' case is all too common. Having said that, the government has made great strides thorough identifying, then subsequently prosecuting individuals/companies that persist with flouting IPR law.

8.0 Future research

The SME sector is proposed to be an appropriate research audience. This study has focused on large organisations. China is proving increasingly attractive to smaller firms. A similar study to this, conducted among SMEs, would be potentially valuable.

This study has largely focused on the UK parent perspective of joint ventures in China. What about the Chinese perspective of UK firms involved in joint ventures? A dual

perspective could be adopted. This is something that is echoed by Luo *et al.* (2001). In their study into control and joint venture performance, the author argue that factors or contingencies shaping IJV performance as perceived by different parents may vary or that each parent may attach different degrees of importance to partner's firm's control. There is clearly a need in future studies to obtain information from both sets of partner firms, and where appropriate alliance managers, in order to obtain a consensus view on alliance performance (Glaister and Buckley, 1999). However, in reality it is very difficult for a Western researcher to follow a dual perspective. In China and much of Asia, a person without some individual connections normally cannot even begin discussions or negotiations (Kriz and Fang, 2002). Virtually all types of joint venture studies in China take the perspective of the foreign parent exclusively. While this is understandable, the result is a substantially biased account of an event that is transacted by at least two parties (Shenkar, 1994). Overcoming this problem can be undertaken using a Chinese and Western researcher. This is something that has been carried out by IMP researchers with a fair amount of success (Fang and Kriz, 2000). Another issue is whether to take an individual or organisational perspective. For example, researching joint ventures from the viewpoint of IJV managers rather than parent company managers may produce a different set of results. IJV managers may be more inclined to 'paint a better' picture of performance given they are accountable to each parent.

This research has concentrated on the IMP interaction approach to business relationships between Western and Chinese IJV partners. An obvious next step in relation to IMP research is to adopt a network perspective. This may include both central and local Chinese government. There is no doubt government still plays a huge part in both establishing and overseeing IJV operational issues. A possible limitation of taking a network approach is the difficulty in accessing Chinese government data and relevant individuals. This is perhaps a project for a Chinese researcher with suitable *guanxi!*

Also, given the shift from joint ventures to WFOEs, further research needs to be conducted comparing the different operational modes. For example, do WFOEs have

special characteristics that produce better performance compared to joint ventures? Do WFOEs prefer a different set of performance measures? This particular issue can be addressed from an objective and subjective perspective. The findings from this research are based on subjective measures. Ultimately, incorporating a combination of both viewpoints may produce a different set of findings.

Finally, China's rapid growth will continue to demand research into this area. The scope for exploring different aspects of not only IJV performance, but also FDI in general is tremendous.

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APPENDICES

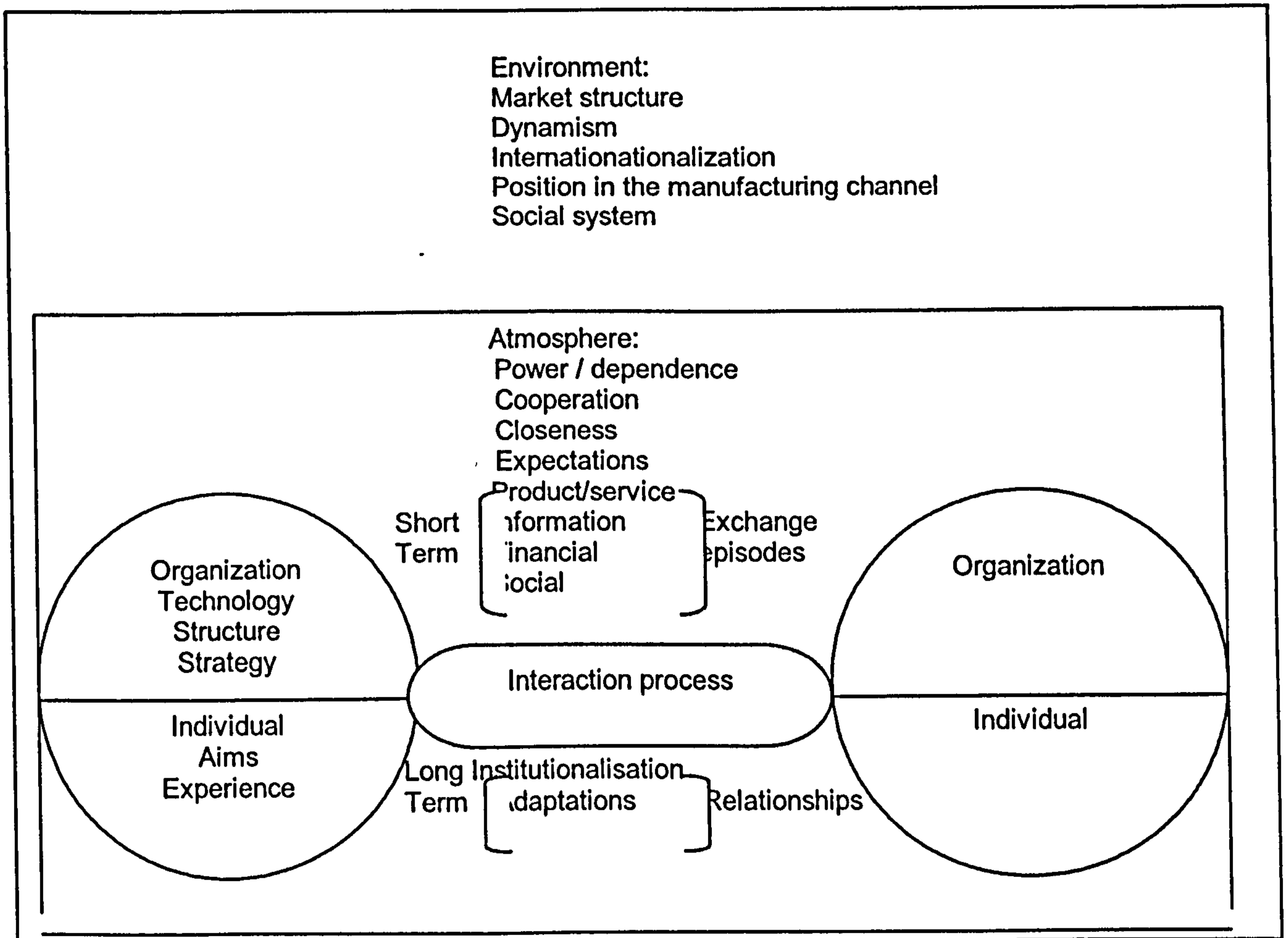
Appendix A: List of publications and presentations resulting from the research:

Date	Publication / Activity
Sept 2001	Wilson, J. and Brennan, R. (2001) 'Managing Chinese/Western Joint Ventures: A comparative analysis of the 'interaction and networks' and 'Chinese management' literature', paper presented at the 17 th Annual IMP Conference, 9 th – 11th September, Oslo, Norway.
April 2003	Wilson J. and Brennan, R. (2003) 'Say goodbye to the joint venture: The case of UK FDI in China, paper presented at the <i>Chinese Economic Association (CEA) Conference</i> , London.
June 2003	Wilson, J. (2003) 'Say goodbye to the joint venture: The case of UK FDI in China', presentation at Royal Institute of International Affairs, London.
Dec 2003	Wilson, J. and Brennan, R. (2003) 'Market entry methods for Western firms in China', <i>Asia Pacific Journal of Marketing and Logistics</i> , 15 (4) pp. 3-18.
June 2004	Wilson, J. (2004) Case Study: London International 'Durex in China', In. 'International Business', Wall, S. and Rees, B., Prentice Hall.

Oct 2004

Wall, S. and Rees, B. (2004) 'Chapter 14 'International Business Environment' In. 'Economics for Business and Management', Griffiths, A. and Wall, S., Prentice Hall.

Appendix B: Interaction Approach Model



Appendix C: Summary of measures

Measures used for interaction constructs are as follows:

Scores based on the 5 point Likert Scale (5 = strongly agree 1 = strongly disagree).

Trust (credibility)

TC1: Our partner is always honest to us.

TC2: We can count on our JV partner promises being kept.

TC3: We are convinced that our JV partner operates in a professional manner.

Trust (benevolence)

TB1: When making important decisions, our partner is concerned about our welfare.

TB2: When we require important information about the JV we can rely on our partner's support.

Commitment

CM1: We focus on long-term goals in this relationship.

CM2: We are willing to invest time and other resources into the relationship with our partner.

CM3: We put the long-term cooperation with our partner before short-term profit

CM4: Together with our JV partner we plan on expanding in China.

CM5: We defend the reputation of our partner when external parties criticise the company.

Appendix D: Questionnaire

SECTION1: Parent company/Joint venture information

Please answer all of the following questions, ticking the appropriate box where necessary.

1 Your name:	_____					For office use only	<input type="checkbox"/> 1
2 Age (please tick)	<input type="checkbox"/> 20-29	<input type="checkbox"/> 30-39	<input type="checkbox"/> 40-49	<input type="checkbox"/> 50+	<input type="checkbox"/> 2to5		
3 Company:	_____						<input type="checkbox"/> 6
4 Company position:	_____						<input type="checkbox"/> 7
5 Contact telephone number:	_____						<input type="checkbox"/> 8
6 E-mail address:	_____						<input type="checkbox"/> 9
7 Name of Joint Venture (JV):	_____						<input type="checkbox"/> 10
8 Location of JV (city in China)	_____						<input type="checkbox"/> 11
9 Year JV established:	_____						<input type="checkbox"/> 12
10 Nature of your industry: (please tick)	<input type="checkbox"/> Chemicals	<input type="checkbox"/> Food and agriculture	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/> 13to24
	<input type="checkbox"/> Electronics	<input type="checkbox"/> Misc light industry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
	<input type="checkbox"/> Misc indus equip	<input type="checkbox"/> Metals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
	<input type="checkbox"/> Medical	<input type="checkbox"/> Building materials	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		

	<input type="checkbox"/>	Telecommunications	<input type="checkbox"/>	Engineering Services	<input type="checkbox"/>						
	<input type="checkbox"/>	Resources	<input type="checkbox"/>	Transportation	<input type="checkbox"/>						
11	Number of JV employees:	under 50	<input type="checkbox"/>	50-99	<input type="checkbox"/>	100-249	<input type="checkbox"/>	250+	<input type="checkbox"/>	25to28	<input type="checkbox"/>
	(please tick)										

SECTION2: Strategic objectives of UK partner

Please choose a maximum of four items from the list below that best describe your strategic objectives for establishing the JV. Number the most important 1, the next 2 and so on.

For office use only

12	Earn a profit in China	<input type="checkbox"/>	<input type="checkbox"/>	29to37
13	Penetrate the Chinese market	<input type="checkbox"/>		
14	Pursue business growth	<input type="checkbox"/>		
15	Develop a base for low cost sourcing	<input type="checkbox"/>		
16	Establish presence in China	<input type="checkbox"/>		
17	Build credibility and reputation	<input type="checkbox"/>		
18	Establish a base to access Asia market	<input type="checkbox"/>		
19	Learn how to do business in China	<input type="checkbox"/>		
20	Others	<input type="checkbox"/>		

SECTION3: Achievement of strategic objectives

Please indicate the extent to which these strategic objectives have been achieved by labelling
1=far short of plan, 2=short of plan, 3= about at plan, 4=exceeds plan, 5=far exceeds plan

- 21 Earn a profit in China
- 22 Penetrate the Chinese market
- 23 Pursue business growth
- 24 Develop a base for low cost sourcing 38to46
- 25 Establish presence in China
- 26 Build credibility and reputation
- 27 Establish a base to access Asia market
- 28 Learn how to do business in China
- 29 Others

**For office
use only**

SECTION4: Means of first contact between partners

Please tick the box that applies to the means of first contact between you and your Chinese partner

- 30 Direct contact between partners C1-C5

- 31 Via Chinese government
- 32 Via broker/middleman
- 33 Other

SECTION5: Trust and commitment between JV partners

To what extent do you agree or disagree with the following statements (Please tick the appropriate box)

T1-T5

	Strongly agree	Agree	Neither	Disagree	Strongly disagree
34 We focus on long-term goals in this relationship	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
35 We are willing to invest time and other resources into the relationship with our JV partner	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
36 We put the long-term cooperation with our partner before our short-term profit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
37 Together with our JV partner we plan on expanding in China	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
38 We defend the reputation of our partner when external parties criticise the company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
39 When making important decisions our partner is concerned about our welfare	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

For office use only

42to47

- 40 When we require important information about the JV we can rely on our partners support
- 41 We are convinced that our JV partner operates in a professional manner
- 42 Our partner is always honest to us
- 43 We can count on our JV partners promises being kept

SECTION6: Important factors in the relationship with our Chinese partner

Please number each of the factors listed below in order of importance to your firm's relationship with it's Chinese partner Number the most important 1, the next 2 and so on. If a factor has no importance at all, please leave blank

Factor	Importance	For office use only
44 Trust		
45 Cooperation		
46 Commitment		
47 Avoiding conflict		
48 Cultural understanding		
49 Other (please describe)		

RI-R3

For office

use only

UI-4

SECTION7: Relationship value

To what extent do you agree or disagree with the following statements (Please tick the appropriate box)

Strongly agree	Agree	Neither	Disagree	Strongly disagree
-------------------	-------	---------	----------	----------------------

50 The relationship with our JV partner has a high value for our firm

--	--	--	--	--

51 The value of the relationship with our JV partner is high compared to relationships with other partners

--	--	--	--	--

52 We believe our partner considers the JV partnership relationship as being high value

--	--	--	--	--

SECTION8: Understanding of Chinese culture

To what extent do you consider the the following statements to be high or low (please tick the appropriate box)

48

Very high	High	Neither	Low	Very low
-----------	------	---------	-----	----------

53 How do you rate your own personal understanding of Chinese culture?

--	--	--	--	--

54 How would you describe your level of Chinese (Mandarin) language?

--	--	--	--	--

55 How do you rate the quality of Chinese cultural research your company has conducted during the JV negotiation process?

--	--	--	--	--	--	--	--	--	--

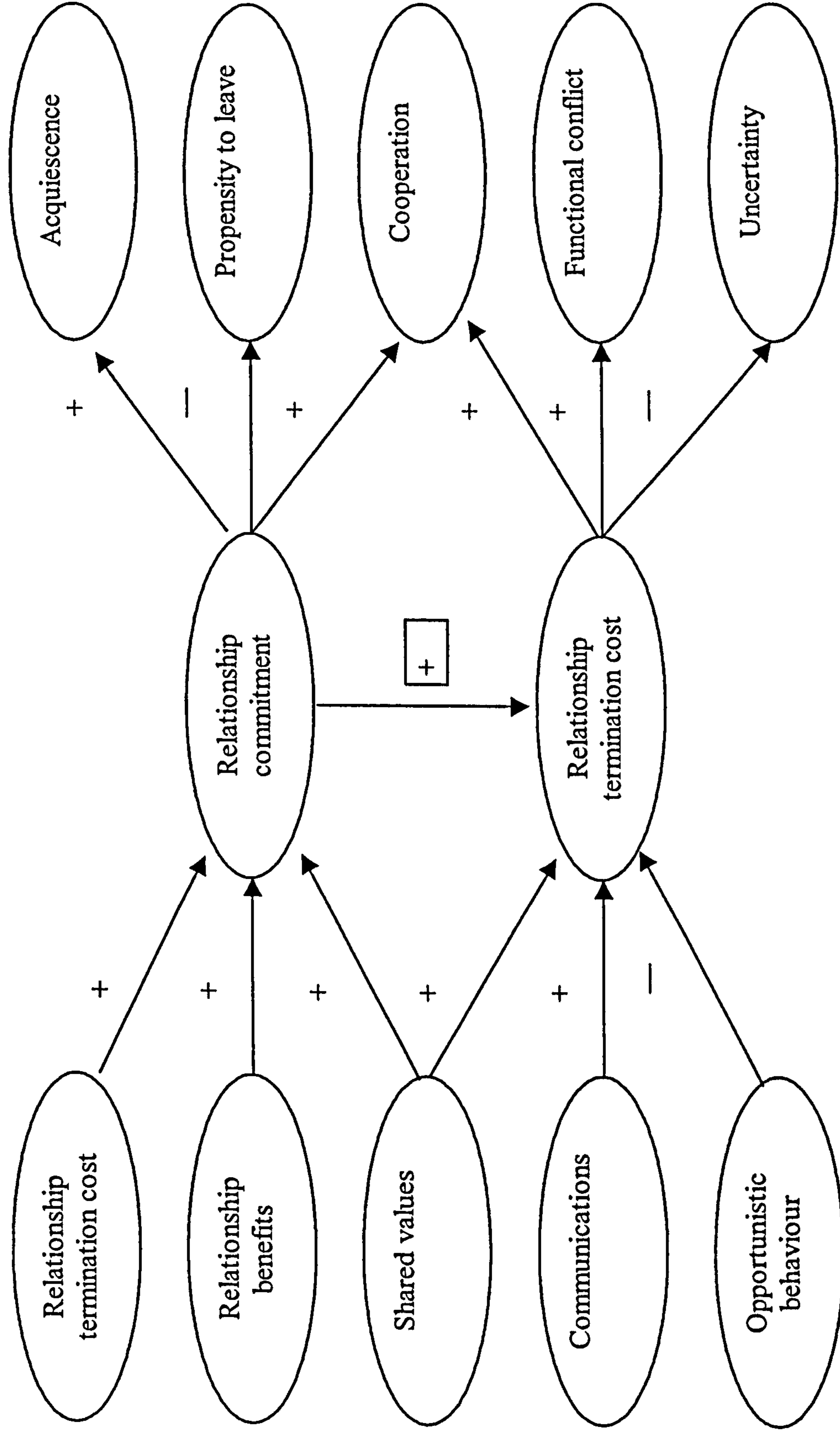
56 How would you rate your understanding of the Chinese concept of 'guanxi'?

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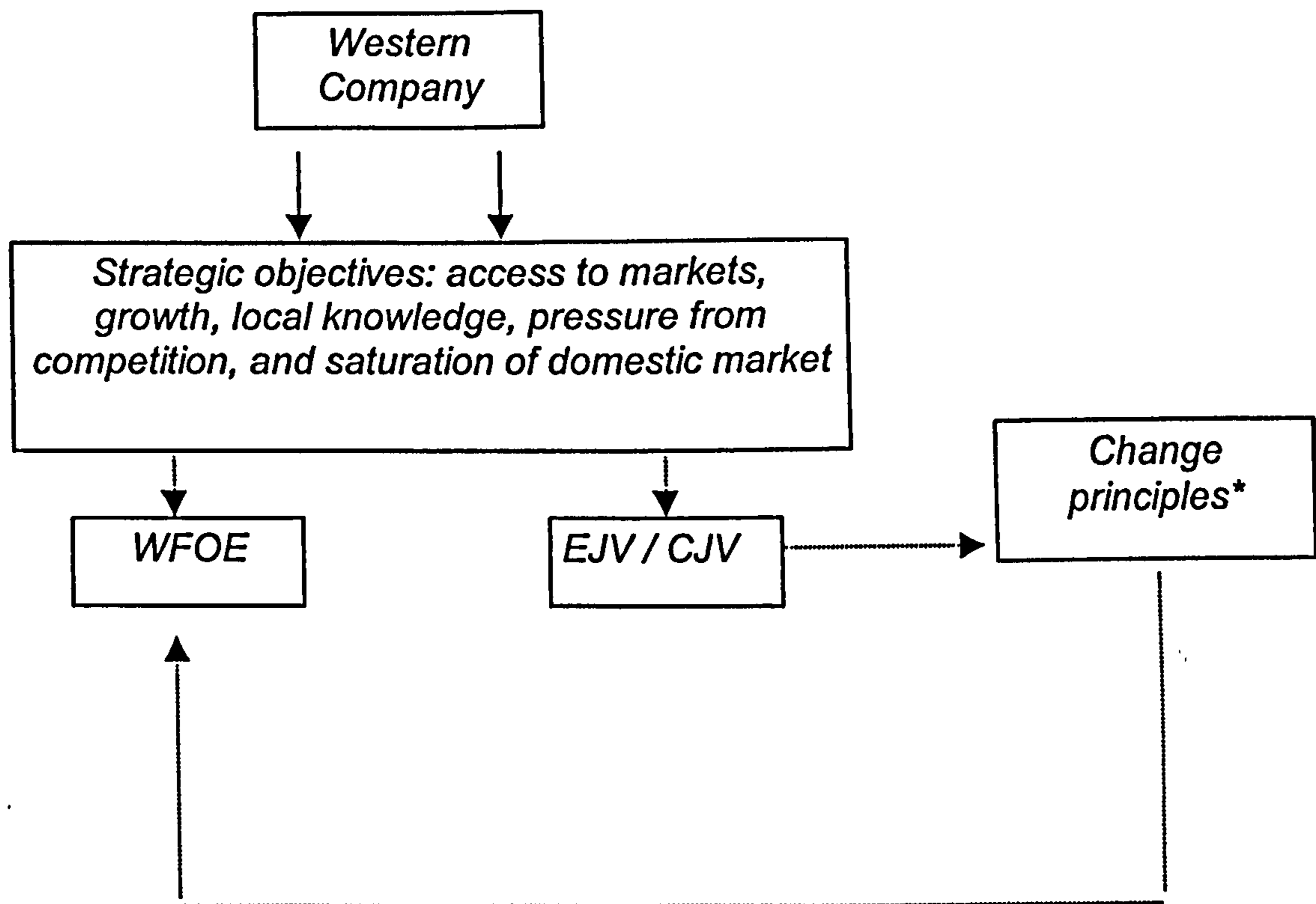
SECTION9: Cultural differences

Please describe a situation that has led to conflict between both JV partners as a result of cultural differences (if not applicable please leave blank)

Appendix E: Morgan and Hunt (1994) KMV model



Appendix F: Model of market entry decision-making and operational change



- Evidence suggests change principles can be anything that means the Chinese partner is no longer perceived as adding value to the joint venture relationship, together with relaxation to regulations governing operational modes as a result of WTO entry (Wilson and Brennan, 2003).