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Effects of Control and Trust on Performance in Japanese-Chinese Joint Ventures

By

Xinjian Li

Abstract

There has been a scarcity in systemic and empirical research on Japanese-Chinese joint ventures despite their peculiar importance to general theory-building of international joint venture (IJV) management. In reexamining the dual hierarchy problem inherent in IJVs, control and trust have been highlighted as the main approaches. Based on a sample of Japanese-Chinese joint ventures, this paper simultaneously examines the effects of control and trust on IJV performance. The major findings are that while control and trust are supplementary significant factors for IJV performance, trust appears more important and fundamental. Without a high level of trust, it is hardly possible to achieve satisfactory IJV performance.

Key Words

International joint venture, Japanese-Chinese joint venture, control, trust, performance

1. Introduction

International joint ventures (IJVs) have been one of the major areas in management research since the 1980s. Japanese-Chinese joint ventures (JVs), due to their peculiarities compared to other forms of IJVs, are worthy of a separated examination for IJV management theory-building. First, previous research has shown fundamental differences between the approaches of Japanese firms towards alliances and that of American and European firms (Bartlett and Ghoshal, 1989; Sakakibara, 1997; Beijing Office of Japan-China Economic Association and the Center for Promoting Economic Communication among Small-Medium Sized Firms, 1999). For example, Pan (1997) finds that Japanese firms are more likely to own a 50 percent or higher equity share in IJVs than US firms. Japanese firms tend to exert stronger control over their international operations than European and American firms (Bartlett and Ghoshal, 1989; Sakakibara, 1997). It has been clearly suggested that the Developed Country category should be split up to examine the management practices of Japanese firms in China (Beamish, 1993). Second, IJVs in China, as in other developing countries, bear features that are different from IJVs in the developed countries (Beamish, 1985, 1993). Even within the group of developing

countries, it is necessary to pay special attention on management practices of IJVs in China (Beamish, 1993; Child and Heavens, 1999; Child and Tse, 2001; Li, 1997; Luo, 1995, 1999). Child and Heavens' research (1999) reported that MNCs would prefer to give China greater than usual prominence within their organizations rather than treat China as just another country to invest in. Beamish (1993) observed various characteristics that could set China apart from other developing countries. The peculiarities of managing businesses in China present 'a challenging scenario for both the theory and practice of international business' (Child and Tse, 2001: 19).

Despite the importance of research on Japanese-Chinese JV management to general theory-building of IJV management, previous work has scarcely shown clear linkages between them (cf. Bird and Beechler, 1999). And for many critical issues in IJV management, there are nearly no systemic and scientific studies in the context of Japanese-Chinese JVs (Sogawa, 2001)¹. In this study, the author hopes to make some contribution by addressing the important issues in general IJV management, but within the organizational settings of Japanese-Chinese JVs.

2. The Dual Hierarchy Problem and the Control-and Trust-centered Approach

2-1. The Dual Hierarchy Problem Inherent in IJV Management

IJVs are independently incorporated entities that are separated from, but jointly run by, foreign and local parent firms (Das and Teng, 1998; Shenkar and Zeira, 1992). Each of the parents would 'actively participate in the decision making activities of the jointly owned entity' (Geringer and Hebert, 1989: 235). In China, the essential characteristics of IJV are understood as joint investment, joint operation, and joint risk-taking or profit-sharing based on equity ownership ratios (Chu, 1998: 10; Yang, 1998: 38; cf. also Joint Venture Law of China, April 4, 1990). However, different parents would exert different priorities on IJV management (Killing, 1982; Shenkar and Zeira, 1992) and this may be the cause of various problems in managing joint ventures (Killing, 1982) and the major reason for dissatisfaction with joint ventures (Madhok, 1995). In practice it is often very difficult to reach consensus on decision making, especially in IJVs of equal ownership². This paper defines the feature of joint venture management influenced by different—typically two—parent firms as 'dual hierarchy' (Madhok, 1995). Killing (1982) used 'double parenting' to describe this phenomenon. Shenkar and Zeira (1992) addressed the same problem by focusing on 'role conflicts'—the opposing pressures from different parents—the IJV general managers are subject to.

Dual hierarchy stems from 'the unique structure of IJVs as multipartite, multicultural organizations' (Shenkar and Zeira, 1992: 57) and represents an 'inherent' nature of IJV management (Madhok, 1995). Although sometimes IJV managers may enjoy a relatively high level of autonomy provided that IJV could achieve satisfactory performance for parent firms (Killing, 1983), such cases do not mean unconditional management independence from parent firms. In addition, practitioners may refer to 'IJV independence' with a different connotation. For example, during the author's

¹Comments of Prof. Sogawa H. at Xinjian Li's presentation on 23 October, 2001, Keio University, Japan.

²(1) Interview with Mr. A, the board member and director of China department, Sanyo Electric, Co., Ltd. on December 8, 2000, Osaka, Japan. (2) Interview with Mr. B, manager in the China division, Matsushita Electric Industrial Co., Ltd. on January 24, 2001, Osaka, Japan.

Table 1 Monetary Compensation of Japanese Expatriate Managers in IJVs in China

	Percentages in total personal incomes						Sample size
	0	<20%	20-50%	50-70%	70-90%	90-100%	
Compensation that is based on IJV performance alone	103	21	27	6	1	10	168
Compensation that is based on IJV and Japanese parent performance	109	16	29	9	0	5	168
Fixed compensation that is decided by Japanese parent firm	20	1	6	28	29	84	168
Others	158	4	2	1	0	3	168

Sources: The Results of Questionnaire Survey to Japanese Headquarters Managers Responsible for Joint Ventures in China, by Imaguchi, Li and Shin, 2001.

Table 2 Non-monetary Incentives of Japanese Expatriate Managers in IJVs in China

Non-monetary Incentives	Evaluations on the importance degrees					Sample size
	very low	low	normal	high	very high	
Advancement within corporation	9	8	80	52	8	157
Increased corporate visibility	4	7	59	70	17	157
Identification as 'high potential' employee	3	4	54	79	14	154
Management development programs	14	28	70	40	3	155
Managerial experience in important markets	5	16	61	60	16	158
Corporate resources devoted to subsidiary	8	27	80	37	5	157
More authority to JV management	6	13	61	60	16	156
More important strategic role of the JV	4	12	55	63	22	156
High-standard mansion, golf membership, etc,	60	42	39	11	2	154

Sources : Same as Table 1

interviews³, several managers stressed the importance of 'self-development' for joint ventures in China. But at the same time they held stringent control on the JV operation through ownership, monitoring or planning. What is actually meant by 'JV self-development' is not for the complete decentralization of its management from headquarters, but the JV to search for independent expansion on its own profitability.

In fact, IJV expatriate managers are motivated more towards their own parent firms, although ideally 'they must simultaneously accommodate the interests of two partners' (Schaan and Beamish, 1988: 279). The results of a recent questionnaire survey on Japanese-Chinese JVs (Imaguchi, Li and Shin, 2001) confirmed this tendency from the Japanese side. Table 1 shows that, in 141 (84%) of the sample IJVs, more than half of the monetary income of the Japanese expatriates is a fixed amount decided by Japanese parent firms. Very scarcely, if at all, is the major part of compensation based on the IJV's performance. In addition, most of the non-monetary incentives for expatriates (Table 2) are also contingent on policies or measures of Japanese parent firms.

³(1) Interview with Mr. B, as noted before. (2) Interview with Mr. C, manager in the international division of Kanebo, Ltd. on November 4, 2000. Osaka, Japan. Mr. C had also worked in China as an IJV manager for four years.

2-2. The Challenges of the Dual Hierarchy Problem and the Control- and Trust-centered Approach

The dual hierarchy problem critically challenges the parent firms to realize their objectives in IJVs (Killing, 1982; Madhok, 1995). Different parents, especially foreign and local parents, may hold incongruent objectives (Child and Faulkner, 1998: 268-272; Lu, Child and Yan, 1997; Martinsons and Tseng, 1999; Shenkar, 1990; Yan, 1999). Many articles propose that IJVs are a relationship of not only cooperation, but also competition to pursue their own goals (Hamel, Doz and Prahalad, 1989; Hamel, 1991; Parkhe, 1993a). 'All the parties involved in a venture have an inalienable de facto right to pursue their own interests at the expense of others' (Buckley and Casson, 1988: 34). However, potential partner opportunism adversely affects IJV operation and adds to uncertainties for parental goal attainment (Das and Teng, 1998; Parkhe, 1993a, 1993b). In an emerging economy like China, where infringements on proprietary assets seem serious (Potter and Oksenberg, 1999; The Ninth Conference of Japanese-invested Enterprises in China on Experience Exchange, Beijing, March 13, 2001), exceptional risks and uncertainties are existent on asset integrity. Therefore, we cannot take it for granted that IJVs work towards the orientation of both parents, although such an outcome is expected as an ideal. The challenge is, how each partner seeks to decrease the uncertainties and risks that the IJV operations might tilt away from their own orientations. On this background, this paper defines IJV performance as each parent's assessment of the extent to which it has achieved its objectives. Such a definition is consistent with the understandings of Arifio (1995) and a number of other scholars (e.g., Lee and Beamish, 1995; Luo, Shenkar and Nyaw, 2001; Schaan, 1988; Yan and Gray, 1994). This subjective measure has been shown to positively correlate with IJV profitability (Child and Yan, 1997, as in Child and Faulkner, 1998: 204). Due to reasons of accessibility, this paper examines the performance of Japanese-Chinese JVs from the Japanese perspective.

Madhok (1995) identified two approaches towards overcoming the difficulties resulting from the dual hierarchy problem. One is through ownership-based control. With more ownership, the parent firm could exert direct control over decision makings in IJV operation and facilitate coordination of IJV activities globally. The second approach revolves primarily on the notion of trust and is referred to as trust-centered approach. 'Efficiencies are facilitated by a mutual orientation towards one another, which is based on trust' (Madhok, 1995: 118). These two approaches are parallel to Aulakh *et al.*'s (1996) 'structural approach' and 'behavioral approach' towards structuring and maintaining of cross-border partnerships. Das and Teng (1998) distinguished similar mechanisms—'the control perspective' and 'the trust perspective'—to handle the 'uncertainties' in IJV management. Despite the difference of foci between these two approaches, the common factor underlying them is 'the objective of flexibility and efficiency in the conduct of the operation' for the parent firm (Madhok, 1995: 118), or enhancing the certainty of cooperative behavior with the partner (Das and Teng, 1998).

However, research on the two approaches, especially the relationship between them remains inconclusive and insufficient. Despite the fact that control has long been a major issue in IJV literature, the linkage between control and IJV performance is still controversial and calls for further empirical examination (Child and Faulkner, 1998; Geringer and Hebert, 1989; Li, 1997; Luo, *et al.*, 2001). With the second approach, although some scholars have suggested a shift of research focus from ownership to trust-based approach (Madhok, 1995) and trust has already attracted many research efforts in

recent years, it is still ‘one of the least understood’ constructs in IJV management (Child and Faulkner, 1998; Parkhe, 1993a). Little empirical work has been conducted on the antecedents of trust and their influence on outcomes in cross-border partnerships (Aulakh, Kotabe and Sahay, 1996; Dolles, Manchu and Koyama, 2001), especially in IJVs in developing economies like China (Child and Mollering, 2001). As for the combined effects of control and trust on IJV performance, nearly no studies have systematically examined all three concepts simultaneously and on an empirical basis (Das and Teng, 1998; Madhok, 1995).

Building on prior work, this study hopes to make some extensions on control and trust approaches in IJV management in three ways: (1) a simultaneous examination of the effects of control and trust on IJV performance; (2) an empirical basis; (3) the context of Japanese–Chinese JVs.

3. Hypotheses

3-1. Control and IJV Performance

Management control refers to the process by which an organization influences its subunits and members to behave in ways that lead to the attainment of organizational objectives (Flamholtz, Das and Tsui, 1985; Yan and Gray, 1994). Control in IJVs is typically defined as ‘the process through which a parent company ensures that the way a JV is managed conforms to its own interest’ (Schaan, 1983, as in Geringer and Hebert, 1989: 240). In a number of studies control in IJVs has been measured as the relative degree of partners in decision makings (Child, Yan and Lu, 1997, as in Child and Faulkner, 1998: 188; Killing, 1983; Lee and Beamish, 1995). Regardless of multiple control mechanisms and control focus, firms exert an adequate level of control to make the attainment of organizational goals more predictable, which ensures more certain outcomes (Das and Teng, 1998). This paper follows such understanding and operationalization of control in IJVs and recognizes the implicit logic as such—the higher the level of control a parent exerts over the IJV, the less the uncertainties resulting from the dual hierarchy problem and the more the operation of the IJV would conform to the goals of the parent, leading to higher IJV performance.

Although parental division of control has been thought of as the first primary approach towards resolving the dual hierarchy problem (Das and Teng, 1998; Madhok, 1995) and a critical determinant of IJV performance (Geringer and Hebert, 1989; Killing, 1983; Luo, *et al*, 2001; Makhija and Ganesh, 1997; Mjoen and Tallman, 1997; Parkhe, 1993a; Steensma and Lyles, 2000), the results of empirical studies on the linkage are inconsistent (Geringer and Hebert, 1989; Li, 1997; Luo, *et al*, 2001; Yan and Gray, 1994). Killing (1983) observed that the dominant control by one partner is correlated to more satisfactory IJV achievements than the shared management in developed country IJVs. Such result has received support in a number of studies since. For example, Yan and Gray’s study (1994) on American–Chinese JVs revealed that the higher the level of control a parent company exercises in the joint venture relative to its partner, the greater the extent to which that parent is perceived to be achieving its objectives. Based on the data of foreign–Chinese JVs, Luo, *et al* (2001) found that controls over IJVs by foreign partners are associated with IJV performance from their perspectives. However, contradictory results on the relationship of control and performance have also been reported (Beamish, 1993; Li, 1997). For example, Beamish (1988) concluded that for the IJVs between

developed and developing countries, there tends to be an association between satisfactory performance and less dominant control by the foreign partner. The argument is that a sharing of control with local partners will lead to a greater contribution from them, which can assist foreign partners in coping with unfamiliar local circumstances. In the case of Japanese–Chinese JVs, since the transference of Japanese-style management appears to be difficult, some scholars suggest that hurried advancement of localization would not be a wise option for Japanese firms (Kagono, 1997: 286). The notion is that it would be better for Japanese parents to dominantly control the IJV operations for a considerable period of time. Sugita's study (1996) also suggests that a high level of control would be beneficial for Japanese parents to achieve their objectives. Therefore, this paper proposes a positive effect of high control on IJV performance from the Japanese perspectives.

- H 1 A high level of control by Japanese parents over Japanese–Chinese JVs is positively related to performance of the JVs as perceived by the Japanese parents.

3-2. Trust and IJV Performance

The concept of trust has been examined from a wide variety of perspectives and organizational settings, and accordingly conceptualized in different ways (Hosmer, 1995; Rousseau, Sitkin, Burt and Camerer, 1998). In the context of IJV management, trust still remains one of the least understood despite its critical importance (Child and Faulkner, 1998; Parkhe, 1993a). Das and Teng (1998) adopted the definition of trust as 'positive expectations about another's motives with respect to oneself in situations entailing risk' (p.494). They differentiate trust from confidence within partner cooperation. In their terms, confidence is the 'certainty about cooperative behaviors' (Das and Teng, 1998: 494). Therefore, by their definition, while trust relates to expectations about the *motives* of the trustee, confidence deals with the perceived level of certainty that the partner will *behave* in a desirable manner. But in many other studies, trust conveys a broader connotation—it does not only entail perceptions of partner's *motives* but also of partner's *behaviors*. For example, Rousseau *et al*'s (1998) review⁴ showed that, the widely held conceptualization of trust across a number of scholars is the willingness of one party 'to accept vulnerability based upon positive expectations of the intentions or behavior of another' (p. 395). Madhok (1995) understood trust in the context of JVs as one party's perceived likelihood of the other not behaving in an opportunistic manner. This paper adopts this definition of trust and specifically considers it having three dimensions in IJV partnerships: (1) the structural—mutual benefit in the partnership, (2) the cognitive—perception of reliance between relevant individuals in the partnership, and (3) the emotional—friendship between relevant individuals in the partnership.

Without mutual benefit between partners, there would be no economic justification for one party to expect the other to behave in a desired manner or less likely opportunistically, making trust relationship impossible to occur. Specifically in China, mutual benefit is stressed as the prerequisite for structuring a joint venture (cf. Joint Venture Law of China, approved on April 4, 1990). Therefore, mutual benefit constitutes an inherent dimension of trust in IJV partnerships. This dimension is similar to

⁴The review was presented at the Special Topic Forum on trust, organized by Academy of Management Review, 23 (3): 393–404.

Madhok's structural component of trust (1995)⁵ and Lewicki and Bunker's 'calculation-based' trust (1996, as in Child and Faulkner, 1998: 48–49)⁶. While the cognitive dimension is similar to Madhok's (1995) social component of trust or Lewicki and Bunker's knowledge-based type of trust (*ibid.*), and the emotional dimension parallels to the identification-based type of trust suggested by Lewicki and Bunker (*ibid.*), this paper diverges from these previous studies by conceptualizing the dimensions based on individual levels. Such an emphasis at the individual level is consistent with the trend of understanding trust as 'the agglomeration of trust between individuals in the two organizations' (Kale, Singh and Perlmutter, 2000: 220). The premise is that as firms cooperate with each other trust is built among relevant individual members because of the close ties that develop between them (Macaulay 1963, as in Kale *et al.*, 2000: 221). Specifically for IJVs in China, a number of observations suggest that Chinese people tend to give higher priority to their own individual objectives in relevance to organizational ones (Sonoda, 1998: 119). Without trustful relationship at the individual levels, there would be little possibility to achieve business success in China (Kakehi and Akamatsu, 1999; Sonoda, 1998: 178). Therefore, particularly for studying trust in IJV partnerships in China, it is necessary to conceptualize the cognitive and emotional dimensions based on individual levels.

Trust is risky in nature because to trust essentially means to leave oneself vulnerable to the actions of the trustees—trust would not be relevant if actions could be undertaken with complete certainty and no risk (Child and Faulkner, 1998; Das and Teng, 1998; Rousseau, *et al.*, 1998; Mayer, Davis and Schoorman, 1995; Mollering, 2001). Therefore, trust is not a thing of absolute good. It could be inappropriately high, especially considering the costs that need to be spent in building trust (Wicks, Berman and Jones, 1999).

But trust, as noted earlier, is recognized as one major method to deal with the difficulties or uncertainties resulting from the dual hierarchy problem in IJV management (Das and Teng, 1998; Madhok, 1995). In a partnership characterized by a high level of trust, opportunistic behavior is unlikely to occur because partner firms will pass over short-term individual gains in favor of the long-term mutual interests of the partnership (Aulakh, *et al.*, 1996; Beamish and Banks, 1987; Parkhe, 1993a). Unlike the control-based approach where the ability of partner firms to behave opportunistically is curbed, in a trust-based approach, the motivation for opportunistic behavior is minimized (Aulakh, *et al.*, 1996), because 'behavioral repertoires are biased towards cooperation, rather than opportunism' (Hill, 1990: 511). In addition, trust can bring about other advantages, such as to reduce the extent of formal contracts (Larson, 1992), to

⁵According to Madhok (1995), trust includes two components—the structural and the social—each of which reinforces the other. The structural component means complementarity of the resources contributed by parent firms; the social one refers to the perceptual aspects of the relationship, such as the perception of long-term equity.

⁶According to Lewicki and Bunker (1996, as in Child and Faulkner, 1998: 48–49), there are three bases for trust to grow—calculation, knowledge and personal identification. The calculation-based trust comes from utilitarian considerations that enable one party to believe that another is trustworthy, because the deterrent for violation is greater than the gains, and/or the rewards from preserving trust outweigh any from breaking it. Calculation-based trust is considered as the foundation for building knowledge- or identification-based trust. The knowledge-based trust emerges when one party knows the other so well that the other's behavior is predictable to him. Knowledge-based trust relies on information rather than deterrence. The identification-based trust exists because the parties not only understand but also appreciate the other's objectives. Emotions enter into the relationships between the parties. It is the stage of 'getting to like you' and people share a personal identity.

reduce harmful conflicts and facilitate dispute resolution (Ring and Van de Ven, 1994), and to promote effective responses to crisis. Therefore, parental goals would be more effectively oriented and promoted in IJVs of high partner trust. Zaheer *et al*'s research (1998) on buyer-supplier inter-firm collaborations has revealed a positive relationship between trust and performance. Explorative empirical studies by Dolles and his colleagues (2001) also revealed a positive relationship between partner trust and performance in international cooperative ventures⁷. Previous field research and case studies on Japanese-Chinese JVs have demonstrated that many unsatisfactory results were due to a shortage of trust or high frequency of conflicts between Japanese and Chinese partners (e.g., Kakehi and Akamatsu, 1999; Sonoda, 1998; Sugita, 1996). Therefore, a positive linkage between trust and IJV performance is expected.

H 2 In Japanese-Chinese JVs, a high level of trust is positively related to IJV performance.

3-3. The Combined Effect of Control and Trust on IJV Performance

As noted before, the common objective of control and trust is for the parent firm to reconcile or coordinate the IJV's activities in its own interest/orientation (Das and Teng, 1998; Madhok, 1995). However, one problem remains unclear: in order to improve IJV performance for one parent, is it enough for the parent to establish either a high level of control or a high level of trust, or should it simultaneously have both a high level of control and a high level of trust? That is, what are the combined effects of control and trust on IJV performance?

Previous literature has displayed two comparative presumptions on this point. The first view assumes a substitute or complementary relationship between control level and trust level—the more there is of trust, the less there is of control, and vice versa (for a review, see Das and Teng, 1998). The implied logic is that, because trust involves a positive attitude about others' cooperative motivations and behaviors, the higher the level of trust, the less need of control. Control is only needed when adequate trust is not present (Zaheer and Venkatraman, 1995; Ring and Van de Ven, 1994).

A second view takes trust and control as parallel concepts (Das and Teng, 1998)—they jointly contribute to the ability that the parent firm could reconcile or coordinate the IJV conduct in its own interests/priorities. 'A higher trust level does not automatically dictate a lowering of the control level, and vice versa' (Das and Teng, 1998: 496). They are *supplementary* in helping the parent firm achieve its goals. In the context of Japanese-Chinese JVs, many scholars recognize that Japanese parent firms tend to exert high level of control over their overseas operations (e.g., Bartlett and Ghoshal, 1989; Sakakibara, 1997). At the same time, however, it is also justified to suppose that Japanese firms emphasize high level of trust, because Japanese culture is typically oriented towards collectivism or *wa*—harmony. The sample firms with whom the author did interviews all simultaneously emphasized a high level of control and a high level of trust and subsequently achieved satisfactory IJV performance⁸. Therefore, it

⁷At the 18th Conference of Euro-Asia Management Studies Association (EAMSA), held in Berlin, Germany, October 31–November 2, 2001, Dolles and his colleagues presented preliminary findings from a 3-year explorative survey clarifying the relationship between trust and performance in the settings of intercultural cooperative ventures. Their results have demonstrated a positive association between partner trust and performance.

⁸Interviews with Mr. A, Mr. B and Mr. C, as noted before.

seems more realistic to adopt the supplementary view to describe the relationship between control and trust in Japanese–Chinese JVs. From this logic it is expected that the aggregate level of control and trust is instrumental in improving IJV performance for the parent firm.

By dichotomizing trust level and control level into high and low values, four combinations of trust and control emerge: high control & high trust (pattern 1); high control & low trust (pattern 2); low control & high trust (pattern 3); low control & low trust (pattern 4). It is expected that pattern 1 would produce the highest IJV performance for the parent firm, pattern 2 and 3 a moderate IJV performance, and pattern 4 the lowest IJV performance. This scenario is parallel to Das and Teng's (1998) high (pattern 1), moderate (pattern 2 and 3) and low (pattern 4) 'confidence in partner cooperation'.

H 3 In Japanese–Chinese JVs, the combination of high control & high trust would produce the highest IJV performance, that of low control & high trust or high control & low trust a moderate IJV performance, and that of low trust & low control the lowest IJV performance.

4. Data Collection and Measures of Variables

4-1. Data Collection⁹

All the Japanese–Chinese joint ventures in China in manufacturing industry constituted the population of this study. The Japanese firms that owned 5% to 95% of equity in such joint ventures (Gomes-Casseres, 1987; 1988)¹⁰ were identified from the Japanese publication, *The List of Japanese Invested Enterprises in China* (2001~2002 version). For the companies that published e-mail addresses of their international departments, the author first contacted them through e-mail to ask for their cooperation with the survey and received 14 confirmative replies. Interviews were also conducted with managers of the international/China departments in 7 corporations. They all agreed to cooperate with the survey. Finally 1015 Japanese firms were selected as qualified for this study. Questionnaire forms were sent to their international departments in January, 2001. They were requested to choose one Japanese–Chinese joint venture as the subject for one questionnaire. Because of the headquarters-centered characteristic of Japanese firms' international management (Bartlett and Ghoshal, 1989; Sakakibara, 1997) and close contacts and communication between headquarters managers in Japan and IJV managers in China (Beijing Office of Japan–China Economic Association and the Center for Promoting Economic Communication among Small–Medium Sized Firms, 1999), the managers in the headquarters international department are believed to be quite informed of the Japanese–Chinese JV operation. Moreover, the headquarters managers in Japan often concurrently hold positions such as directors or managers in the IJVs, and some may even have worked in China as expatriate managers. To the 1015 mails, 254 firms responded. After removing the wholly owned

⁹The questionnaire survey was sponsored by a project of Keio University, where Prof. Imaguchi took the leadership and the author worked as the major attendant. C.f. Imaguchi, Li and Shin, 2001.

¹⁰Based on the data on over five thousand foreign manufacturing subsidiaries of 180 large U.S. MNEs (all *Fortune 500* companies), which was collected by Harvard's Multinational Enterprise Project, Gomes-Casseres (1987, 1988) classified the subsidiary as a joint venture if the MNE owned between 5 percent and 95 percent of its equity.

subsidiaries (16) and Japanese-Chinese JVs in non-manufacturing industries (23), which are not subjects of this study, 215 valid answers were collected as the basis for analysis. They were all equity JVs in manufacturing industry in China. The respondents included CEOs (36), board members (31), chiefs of international department (74), and section heads in the international departments (74).

In 24.2% of the sample JVs, Japanese firms held 5~50% of the equity; in 15.8% of them, 50% of the equity; in 39.1% of them, 50~75% of the equity; in 20.5% of them, 75~95% of the equity.

The average duration of the sample JVs was 6.37 years since start-up, 67.9% of them having operated over 5 years. When the JV contracts expire, 28.2% planned for extension, 12.4% might be transformed into Japanese wholly-owned subsidiaries, 6.7% might go public on stock exchange market. In 3.3% JVs Japanese parents might exit through transferring their equities to the Chinese partners or the third party, 2.9% might go dissolution, and for the remaining 46.4% decisions on extension or other alternatives would be contingent on the situation at the expire date.

As for the scales of Japanese parent firms, 49% of them had more than 500 million Japanese-Yen of capital, and 51% less than that amount; 49% reached sales of more than 3 billion Japanese-Yen in recent years, and 51% less than that amount.

4-2. Measures of Variables

For questionnaire development, the author first assembled existing measures relevant to the constructs of this paper from publications such as the Journal of International Business Studies, Strategic Management Journal, Academy of Management Review, Organization Science, Academy of Management Journal, Journal of World Business, Asia Pacific Business Review, China Economy (*tyugoku keizai*, in Japanese). Then the measures that were most relevant to this study's definitions of the constructs were adopted or adapted. The primary concern here is to maintain the construct equivalence (Douglas and Craig, 1983, as in Cullen, Johnson and Sakano, 1995: 99). The English version was translated into Japanese by one Japanese professor at Toyo-gakuen University and the author. After rounds of refinements on the advice of Japanese professors and colleagues of Keio University, the author asked several headquarters managers of international department about their opinions on the questionnaire draft. The final version was finished after revisions based on their comments. Such procedure to develop questionnaire is similar to that adopted by Cullen, *et al* (1995).

4-2-1. IJV Performance

Since this study takes the standpoint of Japanese parent firms, IJV performance was measured by the Japanese manager's evaluation on attainments of various objectives of Japanese parent firms. Such a measure is consistent to a number of studies (e.g., Arifio 1995; Schaan, 1988; Yan and Gray, 1994). The author first assembled ten items of specific objectives from the literature on IJVs in China (Child and Faulkner, 1998; Li, 1997; Sogawa, *et al*, 1997; Yan and Gray, 1994; a series of surveys conducted by Japan-China Investment Promotion Organization). Examination of the brief summary results revealed that three objectives were not significant to most of the sample firms (for details, see Imaguchi, Li and Shin, 2001), and therefore were ruled out for this study. The remaining 7 specific objectives that are taken into account include profit, exploration

of China's local market, export, an assurance of local raw materials, an ability to get local cheap labor, an ability to get and retain local talent, and the spillover effects on Japan headquarters or other foreign operations.

Two questions were designed for these items of specific objectives. The first one was to ask respondents about the importance degree of the objectives to Japanese parent firms along a 5-point Likert scale ranging from 'very low' to 'very high'. The second one was to ask about their assessments on the attainments of the objectives along a 5-point Likert scale ranging from 'very unsatisfactory' to 'very satisfactory'. Following Si (1996), the attainment of each specific objective is weighted by their importance degrees and the weighted average of the seven items is taken as the general performance for the IJV. The notion is that, the more important the specific objective to Japanese parent firms, the more its attainment should be counted accordingly, and vice versa.

Although there is potential to group the specific items of objectives through factor analysis, this paper focuses on the general IJV performance. The Cronbach's alpha for importance of all specific objectives is 0.63; for attainments of them is 0.73, suggesting a satisfactory degree of internal consistency across these seven specific items¹¹.

4-2-2. Control

Control was measured by the degree of Japanese and Chinese partner's relative influences on decision-making in the joint ventures. The issues included: profit disposal, upper management positioning, strategic priority setting, product pricing, training and development policies, reward and incentive policies, financial control, reinvestment policy, purchasing policies, production planning, sales and distribution, technology innovation, quality control and recruit policies. A 5-point Likert scale was employed for this question ranging from "Totally controlled by the Chinese partner" to "Totally controlled by Japanese firms". The general control level was measured by the average of the assessments on the influence degrees by Japanese parent firms over the above dimensions of decision makings. Such measure was adapted from Lee & Beamish (1995). The highest scoring items were: technology innovation (3.88), quality control (3.79), and strategic priority setting (3.67).

The high value of Cronbach's alpha (0.96) confirmed the internal consistency of this multi-item construct. Factor analysis also observed a high level of communality loadings (0.69~0.87) across various specific dimensions, indicating a good unidimensionality of the measure.

4-2-3. Trust

Trust was measured by assessing four aspects of mutual relations between Japanese and Chinese partners on a 5-point Likert scale ranging from 'disagree at all' to 'totally agree'. They are: 'The joint venture is characterized by mutual benefit among the partners', 'The joint venture is characterized by perceptions of reliance between relevant individuals at multiple levels', 'There is close, personal interaction between relevant individuals at multiple levels', and 'The joint venture is characterized by personal friendship between relevant individuals at multiple levels'. The overall

¹¹In a number of studies, approaching or over 0.7 has been widely recognized as the accepted guideline for Cronbach alpha (Nunnally 1978, as in Mohr and Spekman, 1994, or Lee and Beamish 1995, or Cullen, Johnson and Sakano 1995).

trust was measured by the average of the ratings on the four statements. The mean scores on each item were all over 3.10, indicating a relatively smooth relationship between Japanese and Chinese partners.

Such measure was adapted from Kale, *et al* (2000), with adjustment due to lingual reasons. The Cronbach's alpha (0.92) far exceeded the benchmark of 0.70. Factor analysis also revealed the unidimensionality (loadings=0.88~0.91).

4-2-4. Control Variables—Other Influencing Factors on IJV Performance

Given the multivariate determinants of IJV performance, this paper also sought to control other relevant factors. Explicitness of parental objectives is the first one. Several field studies, including the author's own interviews¹², have revealed that whereas Japanese people have been accustomed to tacit understanding in management, explicitness of objectives is required for Chinese workers to achieve high job performance (Arakawa, 1998; Sogawa, *et al*, 1997). Adapted from O'Donnell (2000), this construct was measured by the ratings on two items along a 5-point Likert scale ranging from 'disagree at all' to 'totally agree'. The two items were: (1) 'the objectives of this IJV are clearly stated'; and (2) 'this IJV's important objectives are stated numerically'. The average of the ratings on these two items is dummied with the division line of '4'. The reason for adopting such high level of benchmark for explicitness is that, the Japanese have usually been considered as being more vague than the Chinese; conversely the things that the Chinese feel vague about may be quite clear in the eyes of the Japanese (Arakawa, 1998; Kakehi & Akamatsu¹³, 1999; author's own interviews). The Cronbach's alpha (0.83) suggested adequate internal consistence. The factor analysis result also strongly indicated unidimensionality (loadings=0.93 for each of the two items).

Second, a number of studies revealed that environmental changes have been a major challenge for business development in China (Child and Faulkner, 1998; Luo and Peng, 1999)¹⁴. The predictability of environmental changes was measured by the extent to which Japanese managers had been able to predict environmental changes in five segments: competition, market trends, supplying of components and parts, regulation and policies, other social situations. The assessments were rated on a five-point Likert scale ranging from 'have hardly predicted any' to 'have predicted almost all'. The average of the ratings on the five items was calculated as the measure of the construct. This measure was adopted from Luo and Peng (1999). The Cronbach's alpha (0.86) and factor analysis (one factor result; loadings=0.73~0.84 for the five items) indicated a high internal consistency and unidimensionality.

¹²(1) Interview with Mr. A and Mr. B.

¹³Mr. Akamatsu documented an event that he had experienced as the general manager in a JV in China. One day, the vice general manager named Mr. Xin from the Chinese parent firm made a request: 'Please give us more *concrete* instructions about the previously decided matters'. This requirement greatly surprised Mr. Akamatsu, because he thought he had already made various instructions. 'Haven't I already made the instructions?' answered by Mr. Akamatsu, the Japanese. 'No, I haven't received any' was the response from Mr. Xin, the Chinese. The same dispute was repeated for several rounds. Then an expatriate colleague of Mr. Akamatsu who was sent by the same Japanese parent firm but who was also a Chinese joined: 'I haven't received any concrete instructions from you, either'—a sheer astonishment to Mr. Akamatsu! Later this colleague explained to Mr. Akamatsu, 'CEO in China would be more powerful than those in Japan. Instructions should not remain tacit and heuristic but rather direct and straightforward about e.g. what and when. It is also necessary to conduct confirmations one by one'. For details, see Kakehi & Akamatsu, 1999, pp.72-73.

¹⁴A series of questionnaire surveys on Japanese firms conducted by the Japan-China Investment Promotion Institution and the Japan Bank for International Cooperation, also reported that environmental changes have been a major headache for Japanese managers.

Third, recent studies have shown that earlier entry to China than rivals contributed to higher IJV performance in terms of profitability, sales growth, and local competitive position (Luo, 1998; Isobe, Makino and Montgomery, 2000; Pan, Li and Tse, 1999). The possible reasons are (1) favorable treatments in terms of taxes, land use, supplies of energy and materials, and market access that would lately not become readily accessible, (2) less competition in the initial period, and (3) accumulation of local knowledge. Start-up timing was measured by a dummy variable—score ‘1’ for the IJV that was started earlier than its rivals, ‘0’ for the contrary occasion.

5. Analysis and Results

Multiple regression analyses are conducted to examine the effects of control and trust on IJV performance (H1 and H2). Through ANOVA analyses, differences in performances between the four combinations of control and trust (H3) are diagnosed.

5-1. Regression Analysis

The results of multiple regression analyses are displayed in Table 3. Model 1 focuses on the effects of control and trust without considering for other factors; Model 2 takes such factors into account. Multicollinearity was checked by the variance inflation factors (VIF) test. VIF values (≤ 1.32) for the two models ruled out the multicollinearity problem (He, 1998: 163–174).

Table 3 shows that control has a significant and positive influence on IJV performance—both before (Model 1, $p < 0.01$) and after (Model 2, $p < 0.05$) controlling other relevant factors. Therefore, H1 is supported. At the same time, trust is also positively related to IJV performance at a highly significant level—either before (Model 1, $p < 0.01$) or after (Model 2, $p < 0.01$) considering the relevant factors. Henceforth, H2 is strongly supported. In addition, according to Table 3, the controlling variables—explicitness of parental goals (Model 2, $p < 0.05$), predictability of environmental changes (Model 2, $p < 0.01$), and start-up timing (Model 2, $p < 0.01$), are also significant forces for IJV performance.

One interesting result Table 3 has revealed is that, the standardized beta coefficient

Table 3 Results of Multiple Regression Analysis^a

Variables	General IJV performance	
	Model 1	Model 2
Intercept	1.833***	1.070***
Control	0.169***	0.148**
Trust	0.384***	0.217***
Explicitness of parental goals		0.170**
Predictability of environmental changes		0.250***
Start-up timing		0.185***
F-value	25.408	17.146
P<	0.01	0.01
R ²	0.197	0.310
Adjusted R ²	0.189	0.292
N	210	197

^aStandardized coefficients and their significance levels are shown on every variable

***= $p < 0.01$; **= $p < 0.05$

cient for trust is bigger than that for control both before (Model 1, 0.384 versus 0.169) and after (Model 2, 0.217 versus 0.148) considering the relevant factors. Such a difference suggests that while both control and trust are significant factors for IJV performance, the effect of trust is greater than that of control.

5-2. ANOVA Analysis

The control level that is over 3.5 is deemed as relatively high, and those less than 3.5 as relatively low. In the same way, the trust level is divided into relatively high (over 3.5) and relatively low (less than 3.5). Thus the sample could be classified into four groups: group 1 with both high level of control and high level of trust, group 2 with high level of control but low level of trust, group 3 with low level of control but high level of trust, group 4 with neither high level of control nor high level of trust. ANOVA analysis is conducted to examine the differences in IJV performance between the four groups. The results are displayed in Table 4 and Table 5. As Table 4 shows, the four groups are significantly different in general IJV performances ($p < 0.01$).

Detailed examination on the differences between the four groups (Table 5) reveals that, while group 1 (both high level of control and high level of trust) has achieved the highest level of performance (3.44), it does not differ significantly from that (3.414) of group 3 (low level of control but high level of trust). Although group 4 (neither high level of control nor high level of trust) is with the lowest performance (2.845), no significant difference has been found from that (2.987) of group 2 (high level of control but low level

Table 4 Results of ANOVA Analysis

	Control	Trust	Sample size	Mean	s.d
Group 1	High	High	42	3.440	0.531
Group 2	High	Low	46	2.987	0.827
Group 3	Low	High	51	3.414	0.507
Group 4	Low	Low	74	2.845	0.667
Total Sample			213	3.129	0.696
F-value	11.992				
Significant at	$p < 0.01$				

Table 5 Bonferroni Analysis Results for IJV Performance between Different Groups

Comparison group	Base group			Mean difference	Standard error
	Group No.	Control	Trust		
Group 1 (High control & high trust)	Group 2	High	Low	0.452***	0.138
	Group 3	Low	High	0.026	0.135
	Group 4	Low	Low	0.595***	0.125
Group 2 (high control but low trust)	Group 1	High	High	-0.452***	0.138
	Group 3	Low	High	-0.427***	0.132
	Group 4	Low	Low	0.143	0.122
Group 3 (low control but high trust)	Group 1	High	High	-0.026	0.135
	Group 2	High	Low	0.427***	0.132
	Group 4	Low	Low	0.569***	0.118
Group 4 (low control & low trust)	Group 1	High	High	-0.595***	0.125
	Group 2	High	Low	-0.143	0.122
	Group 3	Low	High	-0.569***	0.118

Note : ***= $p < 0.01$

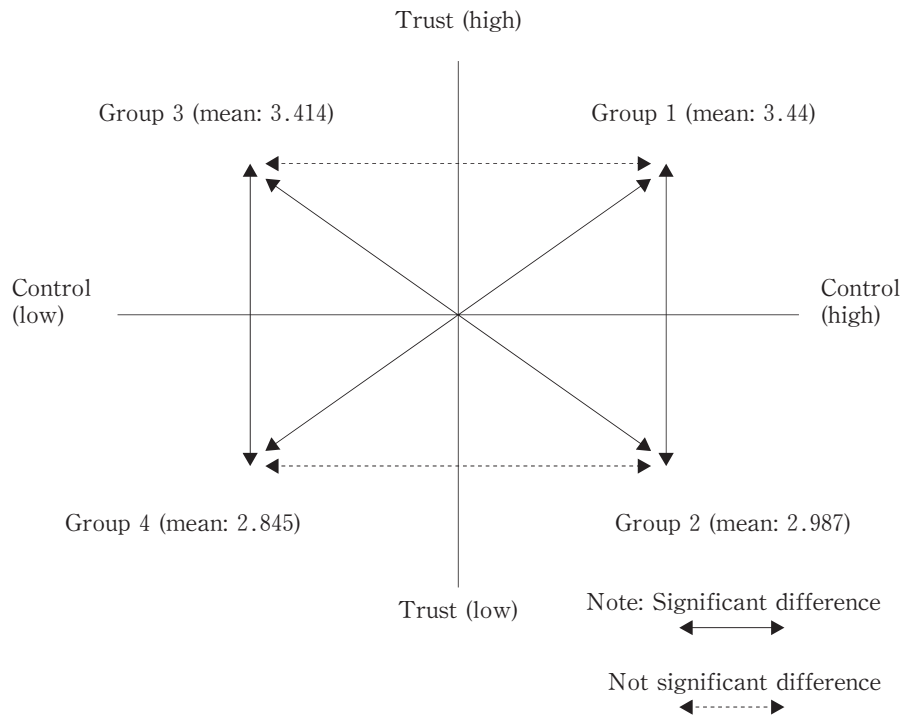


Figure 1 Differences in IJV Performance between Different Groups

of trust). Therefore, H3 is partially supported.

6. Discussions and Conclusions

One basic concern in this study is the relationship between control, trust and IJV performance: is control and trust substitutive/complementary, or supplementary for IJV performance? Table 3 shows that the beta coefficient of control (Model 1, $\beta = 0.169$, $p < 0.01$; Model 2, $\beta = 0.148$, $p < 0.05$) and trust (Model 1, $\beta = 0.384$, $p < 0.01$; Model 2, $\beta = 0.217$, $p < 0.01$) are simultaneously positive at a significant level—both before and after considering other relevant factors, indicating clearly supplementary effects of control and trust on IJV performance.

For easy observation, the results in Table 4 and 5 are depicted in Figure 1. Keeping trust level at either upper (high) or lower (low) range on the vertical axis, switching left or right on the horizontal axis (control level) does not make significant changes in general performance between group 3 and group 1, or between group 4 and group 2. Such insignificance is understandable when considering the results of multiple regression analysis. Table 3 tells that the standardized beta of trust (0.384 in Model 1) is 2.3 times that of control (0.169 in Model 1), suggesting that control, although significant to general performance, could only affect it to a weaker extent than trust. Therefore, the differences in general performances between group 1 and 3, or between group 4 and 2, which mainly result from the effects of switching control ranges between 'low' (left) and 'high' (right), are not big enough relevant to the within-group changes. On the other

hand, because trust affects performance to a much greater degree than control, it is hardly possible to achieve high performance without a high level of trust, as is shown in Figure 1.

In hypothesis 3, no distinction was made between the effects on performance of pattern 2 (high control but low trust) and that of pattern 3 (low control but high trust). The hidden premise was that the effects of control and trust could be agglomerated and were equally important. But according to Table 5, the performance of group 3 is significantly higher than that of group 2. While this result does not contradict to the agglomerate relationship of control and trust in terms of their effects on performance, it suggests again that their effects are not equal, but trust is more significant than control.

Since there is nearly no simultaneous examination on trust, control and performance on an empirical basis (Das and Teng, 1998), this study's finding that trust seems more significant to general IJV performance than control is very interesting. Such result may be relevant to the inherent nature of IJV. By definition, IJV must be jointly run by both partners—sleeping partners, if any, should be reckoned as an exception rather than the norm. Therefore, commitment and cooperation from partners, as well as a good working relationship—all of which are centered on trust—would be fundamentally important in nature (Beamish, 1985; Child and Faulkner, 1998; Madhok, 1995; Parkhe, 1993a). Trust, which grows out of mutual benefit and familiarity/knowledge and identification (Child and Mollering, 2001; Gulati, 1995; Lewicki and Bunker, 1996, as in Child and Faulkner 1998: 48–49; Madhok, 1995), is facilitative to partner cooperation and contradictory to opportunism by nature, although cautions should be taken not to be too trusting (Wicks, et al, 1999). On the other hand, while control is usually considered as one main approach to curb opportunistic behavior (e.g., Das and Teng, 1998; Parkhe, 1993a), it does not necessarily stimulate cooperation behavior. Stringent control, if not properly administered, may entail the potential of becoming a backfire factor for opportunistic or uncooperative behavior. Several studies are in line with such reasoning. For example, Steensma and Lyles (2000) found that imbalanced control between partners would cause opportunistic behavior, conflicts and mistrust. Frazier *et al* (1989) proposed that manufacturers with a power advantage over their dealers were more prone to use coercive strategies in the exchange relationships than were manufacturers without a power advantage. On the other hand, the low-power firm often behaved opportunistically to rectify its power handicap, further aggravating the exchange relationship. Provan and Skinner (1989) also discovered that the greater the supplier's control over the dealer's decisions, the more likely the dealer was to act opportunistically toward the supplier. In brief, it is possibly because trust is more contributive to partner cooperation than control that trust appears as a more significant factor to the general performance.

In conclusion (Table 6), by simultaneously examining control, trust, and IJV performance on an empirical basis, this paper finds that control and trust are supplementary significant factors for IJV performance. But a high level of trust seems more important and fundamental than a high level of control. Without a high level of trust, IJV cannot achieve a high scale of performance.

Yet several limitations exist in this study. First, due to technical reasons the data was only collected from Japanese managers. Future researches should also take into account the Chinese manager's opinions. Second, the influencing factors behind control

Table 6 Hypotheses, Analysis Results, and the Conclusions of This Study

Hypotheses	Analysis Results	Conclusions
H 1 A high level of control by Japanese parents over Japanese–Chinese JVs is positively related to performance of the JVs as perceived by the Japanese parents.	Supported.	By simultaneously examining control, trust, and IJV performance on an empirical basis, this paper finds that control and trust are supplementary significant factors for IJV performance. But a high level of trust seems more important and fundamental than a high level of control. Without a high level of trust, IJV cannot achieve a high scale of performance.
H 2 In Japanese–Chinese JVs, a high level of trust is positively related to IJV performance.	Supported.	
H 3 In Japanese–Chinese JVs, the combination of high control & high trust would produce the highest IJV performance, that of low control & high trust or high control & low trust a moderate IJV performance, and that of low trust & low control the lowest IJV performance.	Partially supported.	

and trust need to be examined in further research.

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