

Governing for Success: The Host Country Uncertainty and the Design of Foreign Parent Control in The International Joint Ventures

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Abstract

In this paper we develop a model of the international joint venture (IJV) control which deals with the uncertainty of the host country. The host country uncertainty is characterized by cultural uncertainty, environmental uncertainty, and competitive uncertainty. Following Geringer and Hebert (1989), Buckley, Glaister, and Husan (2005), we conceptualized foreign parent control across three dimensions including mechanism, focus, and extent. Our empirical evidence is based on the survey of Finnish firms that have established IJVs with local firms in the 1990s. The results show that foreign parent firms tend to exercise more formal, broad, and tight control over their IJVs when they perceived high cultural uncertainty and high competitive in the host countries. On the other hand, they prefer formal, narrow, and loose control over their IJVs in cases of high environmental uncertainty. In addition, the firms that exercise broad, formal, and tight control in high uncertainty countries and narrow, social, and loose control in low uncertainty countries were more satisfied with their IJV performance. Finally, we conclude the paper by discussing the implications of our findings and directions for further research on IJVs.

Keywords: Foreign firms, host country uncertainty, international joint venture control

1. Introduction

In the last several decades, IJVs have become a major strategy for the firms entering in the international markets (Dunning, 1995). The literature of international

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business shows that one of the biggest challenges that the parent firms face when entering IJVs is the control issue over the venture's activities (Anderson & Gatignon, 1986; Geringer & Hebert, 1991; Groot & Merchant, 2000). This is because while participating in a voluntary cooperative relationship in the IJVs, the foreign parent firms are exposed to the risk of opportunism (Zhang & Li, 2001). Researchers have pointed out that the IJVs eventually break up at a rate of 30% to 70% of their total numbers (Geringer & Hebert, 1991; Yeheskel, Newburry & Zeira, 2004; Hennart et al., 1998). Insufficient control may translate into the leakage of knowledge, or proprietary components and capabilities to the outside group (Geringer & Hebert, 1989), or the loss of the competitive advantage in favor of the other parent (Hamel, 1991) or some other competitors (Reich & Mankin, 1986). Despite the popularity and importance of the IJVs and the extensive research in the field, the understanding of their functioning is rather limited (Das & Teng 1998). Furthermore, Geringer and Hebert (1989) and Ramaswamy, Gomes, and Veliyath (1998) proposed that future research should deepen the IJV control debate in terms of mechanisms, control extent, and control focus. Additionally, another avenue of research may be the focus on the foreign parent firm's adaptation of their control in response to the IJV's operating environment (Yan & Zeng, 1999; Zhang & Li, 2001; Barden et al., 2005: 170).

The primary objective of the present study is to build up a framework for the managing of IJVs from the viewpoint of the foreign parent firms, in their endeavor to cope with uncertainties in the host countries. In order to accomplish this goal, we strive to answer to the following research question: **How host country uncertainty influences the foreign parent firms' choice of control structure in the IJVs?** The research puzzle is addressed through the following questions:

- 1) How do foreign parent firms design their IJV control in order to cope with the host country uncertainty?
- 2) What are the relationships between the foreign parent control structure in IJVs and the IJV performance?

The first research question would enable to analyze the link between the foreign parent control design in their IJVs and the host country uncertainty. It inquires into what control structures, in terms of mechanism, focus, and extent, is needed to respond to the uncertainty in foreign countries. The host country uncertainty can be defined in terms of cultural uncertainty, environmental uncertainty, competitive

uncertainty, and behavioral uncertainty. The second research question investigates whether the foreign parent control structure influence the IJV performance.

The issue of uncertainty in the host country is not new in the international business literature. However, it has not been studied exhaustively. Most studies related to uncertainty issues in the host country focus on the choice of entry strategy by the foreign firms such as those by, Erramilli et al. (1996), Delios and Henisz (2000), Brouthers et al. (2003), Kontkanen (2006), Sanchez-Peinado and Pla-Barber (2006); on the governance structures in strategic alliances like those of Chen and Chen (2003); or on the headquarters' behaviors such as Lang and Lockhart (1990). In IJV studies, Taco and William (2004) reviewed ten major journals for a period of 15 years between 1988 and 2003, and identified 388 IJVs studies. Among these, there were a few studies researching control (15/388), while most IJV studies focused on the entry mode strategy (57/388), the partner learning (39/388), and the partner selection (28/388).

Shan (1991) studied the relationship between the foreign firms' share in IJVs and the political risk in the host country. Brouthers and Bamossy (1997), while studying the role of key stakeholders in the IJV negotiation process, also focused on the influence of the host country government on IJVs. Pan and Tse (1996), when discussing the cooperative strategies between foreign firms in China, suggested that the foreign firms involved in IJVs tend to cooperate with one another when the level of risk in the country increases. After carefully reviewing the IJV literature in the major international business journals using the most significant data sources such as *Elsevier-Science Direct*, *AIB Inform-Proquest Direct*, *EBSCO*, *Emerald*, *JSTOR*, and *Blackwell synergy*, we reached the conclusion that no study has dealt with the IJV control designed to scope with the host country uncertainty properly.

As of a few studies discussing about uncertainty in joint venturing, Birnberg (1998) focus's was to explain the link between IJV interdependency and uncertainty. He suggested dealing with uncertainty by the mean of only formal contract. Similarly, even though the environmental uncertainty was mentioned in Kumar and Seth's work (1998), it was limited to the link between environmental uncertainty, IJV strategic interdependence, and control mechanisms. These few studies did not analyze the uncertainty in the host country thoroughly and has ignored the multidimensional aspects of control. The present study aims to fill this gap. In the present paper, an IJV

is regarded as a separate entity located in foreign countries formed by one (or more) MNC (s) and one (or more) local firm (s) through whether green fields, or partial acquisitions. In the IJVs, foreign ownership should range from minimum of 10% to maximum of 90 %. Uncertainty refers to the difficulty or inability to predict the environment (Miller, 1992), or to the unpredictability of changes of some factors (Brouthers, Brouther, & Werner (2003). Host country uncertainty in this academic enterprise refers to the following factors: cultural uncertainty, competitive uncertainty, and environmental uncertainty.

In the following sections, we conceptualize the IJV control along three dimensions control mechanism, focus, and extent. Subsequently, we develop several hypotheses regarding the foreign parent control structure in their IJV and the host country uncertainty. Eventually, we discuss our data methodology and present the main results of our survey. Finally, we conclude the paper by pointing out the implications for researchers and managers, and indicate some opportunities for future research.

2. Conceptualization of the IJV Control

In this section, we first review the key points of IJV control. Second, we elaborate three dimensions of the IJV control: control mechanism, control focus, and control extent which are based on the work of Geringer and Herbert (1989).

2.1. Definitions of Control in IJVs

In the organizational literature, management control refers to the process by which an organization influences its members and its units to work in ways that meet the organizational objectives (Glaister & Bluckley, 1998). According to Child et al. (2005:15), the control is a central aspect of the management, and essential in any system that holds the managers accountable for their actions and decisions. Ouchi (1977: 95) suggested that “control can be conceptualized as an evaluation process which is based on the monitoring and evaluating of behavior or of outputs”. Thus, the organizational literature emphasizes on how control can be used to manage individuals and subunits. In the IJVs, because there are two or more parties involved, their management control is complex (Geringer & Hebert, 1989). In this paper, the

control of IJVs is defined as the influence of the foreign parent firms on the IJV operations. Furthermore, researchers have acknowledged that the control systems are complex and multidimensional (see e.g. Geringer & Hebert, 1989; Glaister, 1995; Kumar & Seth, 1998; Raswamy et al., 1998; Das & Teng, 1998; Buckley et al. 2005; Lu & Hebert, 2005). Unfortunately, the existing research tends to focus on only one or two dimensions (see table 1). In order to be able to capture the dynamic nature of the IJV and conduct IJV control research thoroughly, this study adopts the multidimensional approach of control developed by Geringer and Hebert's (1989). In the following, these control dimensions are elaborated. Key empirical studies made in 1995-2007 are summarized in Table 1.

2.2. *Control Mechanisms*

In general, the control mechanisms are structural arrangements deployed to determine and influence what the members of the organization do (Geringer & Hebert, 1989; Fryxell et al., 2002). The control mechanisms consist of a variety of instruments including formal and social controls that are available to firms for exercising effective control over their members (Behrman, 1977; Friedman & Beguin, 1971). *Formal control* depends on hierarchies, standards (Perrow, 1972), codified rules, procedures, goals, and regulations that specify desirable patterns of behavior (Das & Teng, 1998). These regulations are explicit in their prescription of behavior and in their means of enforceability (Das & Teng, 1998), aimed directly at protecting the assets of the parent firms (Fryxell et al., 2002). These instruments of formal control are usually agreed upon and imposed by both the foreign and local parent firms (Fryxell et al., 2002). Mechanisms of control are ownership, the board of directors, the appointment of key personnel, the planning and approval process for capital budgeting and resource allocation, and the lay down procedures and routines for IJVs (see e.g. Makino, 1995; Lu & Hebert, 2005).

Social control is designed to promote expectations and mutual commitments through which the JV managers learn to share the common attitudes and knowledge of the organization (Nonaka & Takeuchi, 1995). Social control refers to various mechanisms such as informal communication, information exchange and training, personal relation, mentoring, and development of a common organizational culture.

These mechanisms foster shared values and norms, without explicitly restricting the behavior of the targeted people through the means of those social controls (Schaan, 1983; Das & Teng, 1998; Chalos & O'Connor, 1998, Fryxell et al., 2002). Compared to formal control mechanisms, social control mechanisms have the potential to reduce monitoring and contracting costs, and to support the flexibility and adaptability of the enterprise (Dyer, 1997).

2.3. *Control Focus*

Control focus can be further divided into broad control and narrow control (Geringer & Herbert, 1989). In control focus, the partners can choose to have a *broad control* focus and attempt to exercise control over the entire range of the IJV's activities, or they can have a *narrow control* focus and confine their control activities on the performance dimensions they consider to be critical (Geringer & Hebert, 1989; Groot & Merchant, 2000). Child et al. (2005) maintained that depending on several factors, such as the parent firm's competencies and the critical of such activities parent firms may focus their control over activities related to technology in one case but on market related activities in another case. There are also cases when the parent firms may focus their control on both technology and market related activities. The areas of control focus consist of marketing, sales and distribution, procurement, general management and operation, finance and accounting, R & D and development, production and quality, and human resources. Geringer and Frayne (1990) suggested that one of the crucial areas that determine whether the parent's intended objectives are achieved is their focus on the human resource control. In this paper, the control focus is considered to be broad when it is based on more than two areas, and narrow when it is based on only one or two areas.

2.4. *Control extent*

The control extent refers to the degree or tightness of control which is exercised on the venture (Geringer & Hebert, 1989). Control extent consists of tight control and loose control. In loose control, the parent firms tend to use only one or two control mechanisms and focus their control on only one or two control areas exercised over

the IJVs. Furthermore, in loose control, the parent firms are more flexible in their evaluation of the employees' behavior and their performance. The frequency of reports that the IJV managers have to submit to the parent firms and the meetings between the parent firms and the IJV managers are very few in loose control. In contrast, the tightly controlled organizations tend to be strict with respect to their employee's dress code, punctuality, and cost-consciousness (Hofstede, Neuijen, Ohayv & Sanders, 1990); detail oriented, precise in operation (O'Reilly, Chatman & Caldwell, 1991).

Table 1. Key empirical studies on IJV control 1995-2007

Author Year	Sample Size	Data Collection	Concept of Control	Focus Area
Glaister (1995)	94	Survey	Mechanism, extent, focus	Parent control, IJV autonomy
Hébert (1996)	70	Survey	Extent of control	Control, conflict
Tallman & Mjoen (1997)	102	Survey	Activity control	Equity control, performance
Kumar & Seth (1998)	64	Survey	Mechanisms of control	Strategic interdependence, uncertainty, control
Wang et al., (1998)	132	Survey	Mechanisms of control	Control, performance
Child & Yan (1999)	67	Survey	Strategy, Operations	Resources provision appointment control
Lyles et al. (2000)	73	Survey	Social, formal	Trust, knowledge acquisition, control
Yan & Gray (2001)	90	Survey	Strategy, operations	Effects of control on IJVs
Fryxell et al. (2002)	129	Survey	Formal, social	IJV age, trust, control
Johnson et al.	51	Survey	Decision making	Fairness, commitment, (2002) control
Mohr & Chalos (2003)	110	Survey	Extent of control	Trust, control
O'Connor (2004)	117	Survey	Mechanism of control	Determinants of control
Choi & Beamish (2004)	71	Survey	Split, shared control	Control, performance
Pangarkar & Klein (2004)	76	Survey	Parent strategy	Control, performance
Barden et al. (2005)	12	Interviews	Operational control	Control, conflict
Buckley et al. (2005)	20	Survey & Interviews	Mechanism, focus, extent	The use of different control in IJVs
Lu & Hébert (2005)	720	Secondary data	Ownership	Initial conditions, control, performance
Brouthers & Bamossy (2006)	8	Interviews	Ownership, IJV manager	Control, performance
Duan & Chuanmin (2007)	3	Interviews	Ownership, mechanism of control	Control, performance

Tight control can be effected through any mechanism that provides the partner with a high degree of certainty that the personnel in the IJV will act as the given partner wishes. Control is tight from a partner's perspective if that partner has the right to make or approve the key decisions (Geringer & Hebert, 1989). Tight control is manifest also if the IJV staff is held strictly accountable for adhering to a complete set of described actions such as policies and procedure. Tight is as well related to highly frequent and precise reporting (Child et al., 2005). Additionally, control is tight if the assessment of the result is objective and often includes significant rewards or punishments, which are definitely linked to the accomplishment or non-accomplishment of the desirable results on a short term basis. Control can be tightened through more intensive training of the IJV employees in production and management techniques (Van Sluys & Schuler, 1994). However, tight control may also have side effects. As Child et al. (2005) have argued, if control is exercised in a too frequent and domineering manner, it is likely to lead to significant ill will and to the eventual breakdown of the IJV.

3. Host Country Uncertainty and Foreign Parent Control in IJVs

The business environment today is increasingly challenging, the multinationals facing an ever growing degree of uncertainty and risk. Previous studies indicate that the level of uncertainty strongly influences the design of the control dimensions in the IJVs (Johnson et al., 2002). Govindarajan and Shank (1992) stated that because of the different levels of uncertainty faced by the constitutive units of a multinational, each unit would require systematically different management control systems. According to Kumar and Seth (1998), the host country uncertainty is defined as the complexity and volatility of environmental factors. The uncertainty can be high due to physical and cultural uncertainties, changes in host-government policies, and other specific factors (Pangarkar & Klein, 2004). For more comprehensive understanding uncertainty and for the sake of analyzing the influence of uncertainty of parent control, the present study categorizes the host country uncertainty into the *cultural uncertainty* (see Sanchez-Peinado & Pla-Barber, 2006), the *environmental uncertainty* (Sutcliffe & Zaheer, 1998), the *competitive uncertainty* (see Lang & Lockhart, 1990). To manage the risk involved in operating in these environments, previous researchers

suggested that the firms' structure and governance play a decisive role (Drew & Kendrick, 2005). In the following we will discuss how the foreign parent firms design their IJV control in order to deal with the host country uncertainty.

3.1. Cultural Uncertainty

The cultural uncertainty is often a potential source of misunderstandings (Child et al., 2005) and internal uncertainty for the IJVs (Luo et al., 2001). The cultural uncertainty between nations has been evidenced in the differences in managerial practices, values, mind-sets, and norms (Ralston, Gustafson, Cheung & Terpstra, 1993). The foreign and local parent firms differ in management styles, which may result into conflict and incompatible goals (Ding 1997, Hennart et al. 1998; Yan & Gray, 2001). This may lead to bargaining and negotiating between the foreign and local parent firms, which slows down the decision-making process and adds to the bureaucratic costs (Balakrishnan & Koza, 1993; Ding, 1997). The slow down of the decision making process may lead to the failure of IJVs to respond to the high frequent changes. Furthermore, the foreign and local parent firms may have differences in routines (Hennart et al. 1998) and may clash over issues like product quality, exports, employee wages, or labor policy. These may result in higher uncertainty and higher bureaucratic costs as a result of increased bargaining and negotiating between partners (Ding 1997, Pangarkar & Klein, 2004). According to Egelhoff (1984), the greater the cultural uncertainty between the foreign and local parent firms, the greater the problem in exercising organizational control over the IJVs. Thus, to avoid the slow down of the decision making process and the high bureaucratic costs they incur, the foreign parent firms will attempt to obtain a broad, tight, and formal control over the IJVs.

On the other hand, Bai et al. (2003) evidenced that there is less control when the foreign parent firms and their local partners share a similar cultural background. They showed that when setting up a joint venture with firms from the mainland China, the partners from Hong Kong, Macau, Singapore and Taiwan share a similar cultural background. They speak the same language as, and may even have kinship relationships with the local partners. Under these circumstances, it is easier for them to find other ways to mitigate the expropriated problems and this in turn, determines

them to be less reliant on control than other foreign parent firms. In addition, the spread of bad words by or among people of the same ethnicity may have very strong negative effect on future investment opportunities of the perpetrator of expropriation (Bai et al., 2003). Corroborated from the above discussion we can state:

Hypothesis 1: The higher the cultural uncertainty between the foreign and local parent firms, the more likely the foreign parent firms exercise a broad, formal, and tight control over the IJVs.

3.2. Environmental Uncertainty

The environmental uncertainty is defined as the complexity and volatility of the environmental factors. The environmental factors' volatility refers to the unexpected changes in regulation, legislation, judicial decisions, interest rates, or changes in demand (Kumar & Seth, 1998). While operating in foreign countries, for a firm to take full advantage of the opportunities offered by the environments, it has to develop capabilities that keep it in harmony with the environment (Wernerfelt, 1984). Therefore, a different context requires different control mechanisms (Johnston, 2005). This is due to, the frequent and unpredictable changes of the government policy (Child, Markoczy, & Cheung, 1994), and the possibility of collusion, at the IJV level between the local parent firm and the local government, especially when the local parent firm is a state-owned enterprise (Pangarkar & Klein, 2004).

Brouthers and Bamossy (1997) and Mjoen and Tallman (1997) argued that the local governments are one of the important stakeholders in the IJV negotiations for control. This role is particularly significant in some countries such as China, in which the policy makers are strongly influenced by economic motives such as foreign investment on the development of local infrastructure, and the local employment opportunities. Hedlund (1986) and Bartlett and Ghoshal (1989) have demonstrated the link between the changing external environment and the firm's strategy and structure. Garnier (1982) suggested that the local environment also influences the subsidiary control and autonomy. The excessive control can be a problematic because the foreign parent firms may not be fully aware of the operational complexity in the local conditions. Shortell and Zajac (1988) maintained that the IJVs should adapt more readily to the changing external environments. When the IJVs are faced with high a

environmental uncertainty, the foreign parent firms may need to provide the IJVs with more autonomy in decision making, and to allow them to be more flexible so that to deal with uncertainty in a timely and efficient manner. Peng and Heath (1996) commented that when operating in an unfamiliar environment such as China, the foreign parent firms may need to rely on the local parent firms to secure the needed resources, thus willingly sharing the control with the local parents. Calantone and Zhao (2001) suggested that for the parent firms that are unfamiliar with these markets, obtaining local knowledge about the specific of the environment should be of major concern rather than the control issues. This is because the IJVs are closest to the changing environments and thus have a best knowledge these particular situations (Lewis, 1990).

Furthermore, Kumar and Seth (1998) maintained that at high levels of environmental uncertainties, more complex control appears to be inefficient in managing the relationship between the IJV and its parent. The habitual legislation change and the increasing number of new competitors entering to the markets are quite popular in foreign markets. To stay competitive, the IJVs need to react fast to these changes. Sanchez-Peinado & Pla-Barber (2006) argued that when faced with unexpected changes in demand, the firms tend to adopt a weaker control that allows the IJVs to enjoy greater flexibility in responding to these changes. In addition, according to Lyles et al. (2000), it may be significantly difficult to implement a more formal control in a rapidly changing environment. On the other hand, Guidice (2001) found that social control was not moderated by the degree of uncertainty, and it appeared to be an efficient control mechanism regardless of environmental conditions. Similarly, Drew and Kendrick (2005) argued that in this kind of environment, cultural mechanism could be an effective control mechanism. Moreover, they maintained that the firms' structures and systems of firms need to be adaptive in managing the risk involved. Therefore, as the environmental uncertainty rises, the need for flexibility increases. As a result, we expect that:

Hypothesis 2: The higher the uncertainty of the IJV's operating environments, the more likely the foreign parent firms exercise a loose, narrow, and social control over the IJVs.

3.3. Competitive Uncertainty

The competitive uncertainty refers to the unpredictability of the future state of competition (Miller, 1992). Mjoen and Tallman (1997) maintained that a specialized control design would enable the foreign parent firms to protect their IJVs. In the countries where the competitive uncertainty, and the possibility of new competitors entering to the market are high, in order to protect their own interests and to avoid suffering from low performance, the foreign parent firms need to closely monitor the IJV operation through formal control mechanisms (Chen, 2004). According to Calantone and Zhao (2001), the foreign parent firms that face a high pressure from their competitive uncertainty in the host countries where the IJVs are located are likely to increase their control level over their IJVs. On the other hand, in the fast growing markets where the competitive pressure is low or the stakes are big enough for all players, the foreign parent firms may be willing to give the IJVs more flexibility in dealing with other types of uncertainty (Hedlund, 1986). Thus,

Hypothesis 3: The higher the competitive uncertainty, the more likely the foreign parent firms exercise a broad, formal, and tight control over the IJVs.

3.4. Linkage between the Host Country Uncertainty, Foreign Parent Control, and IJV Performance

The definition and measurement of organizational performance is always a controversial topic for academic researchers as well as practitioners in many different areas. While there have been many attempts to define and measure performance of organizations, due to lack of consensus on this concept, the extant empirical research has not produced an theory of performance measure that can be applied across organizations (Tatoglu & Glaister, 1998). Furthermore, the hybrid nature of IJVs, the possibility of incongruence between partners, and the influence of different cultures in IJVs lead to the valuation of performance complexity and no consensus on the determinants of IJV performance (Zeng, 1998; Child & Yan, 2003: 283-284; Mohr, 2006). Performance is the ultimate test of a firm strategy (Schendel & Hofer, 1979), a multidimensional construct (Vryza, 1997). Different perspectives have been used to access a venture's performance in previous research including from single parent perspective such as foreign parent or local parent perspective; or both foreign and

local parent perspective; and/or IJV management perspectives. Geringer and Hebert (1991) found a significant correlation between parent's assessment and that of the IJV manager. Besides, Peng and Luo (2000) pointed out that a high correlation between self reported data and archival data in China. Moreover, Beamish and Delios (1997) conclude from their review that perceptual and objective measures of IJV performance are generally correlated. Thus, *in the present study, perceptual measures* such as parent satisfaction with IJV total performance and financial performance are used to investigate the relationship between parent control and IJV performance.

Child & Yan (2003) argued that right control structure choice permits the effective use of strategic resources that the parent firms have in the IJVs, thus helping to increase IJV performance. Previous researchers argued that strategic choice of a firm directly links to its external environments and has significant implication to performance (Miller and Friesen, 1983). O'Connor and Chalos (1999), when studying the factors affect success and failure of IJV, suggested that in order to succeed in China, the design of IJV control system has to be appropriate to the business environment. The appropriate control structures in their IJVs can safeguard the foreign parents' competitive advantage (Geringer & Hebert, 1989; Hamel, 1991) from competitors. Thus, the foreign parent firms will be more confident and continue supporting their IJVs, support which play an important role in the IJV performance.

To achieve the overall parent objectives in the IJVs, they have to ponder between the IJV control structure and the risks involved (Lynch, 1993), taking into account the extent of environmental uncertainty and the degree of trust (Birnberg, 1998). Lorange et al. (1986) maintained that by exercising a proper IJV control structure in their dealing with the host country uncertainty, the foreign parent firms can make sure that their strategies are effectively implemented, and that their resources are efficiently utilized for enhancing the IJV performance. Luo (1996) maintained that the adaptation of a set of strategies that tailored to the investment environment represents a necessary condition for attaining a high level of performance. In contrast, lacking of appropriate control is inadequate for monitoring uncertainty, leading to IJV failure (O'Connor & Chalos, 1999). Thus, the foreign parent firms which adapt their control structures in the IJVs to respond to the specific host country uncertainty will have a better IJV performance than those that do not. As a result of hypothesis 1 and hypothesis 3, we expect that:

Hypothesis 4: Foreign parent firms are more satisfied with IJV performance when they exercise broad, formal, and tight control over the IJVs operating in high uncertainty host countries, and exercise social, narrow, and loose control in low uncertainty host countries.

4. Sample Description and Results

4.1. Sample description

The study here is a part of an on-going research project focusing on IJV behavior, strategies, partner selection, control structure, and performance of Finnish firms. The target firms and investments were identified as follows 1) the FDI data base collected by the project leader starting from late 1980s based on press releases regarding IJVs published on leading business magazines and newspapers and 2) annual reports and websites of the 250 largest Finnish firms from the leading magazines; 3) based on the earlier surveys focusing on IJVs and WOS by Finnish firms conducted by project leader. From the resources, we identified 340 IJVs qualifying IJVs formed by Finnish firms since 1988 and in operations at least until 2002. The qualifying 340 IJVs involved 200 Finnish parent firms. Among these 200 firms, several firms were very difficult to contact either because they had been restructured or gone out of business. The firms were contacted to find out the right informants. In some firms there was no longer anyone with sufficient knowledge required for the study. This left a total of 161 Finnish parent firms. Given time and cost constraints a postal questionnaire and online web survey were used to gather the data. The participants were those managers who directly involved in IJVs establishment and operations.

To enhance the quality of the data, the respondents were contacted by phone in December 2006 to explain the key points of the study and the questionnaires. In exchange for their participant in the study and to provide motivation and accurate responses, the respondents were assured of anonymity and were promised a summary report of the findings and participated in a draw for three gifts. After one reminder at the end of the January 2007, at the end of February, 54 questionnaires were returned from which 5 questionnaires were not usable. Thus, the final sample was 49 IJVs including 40 Finnish parent firms. The response rate was 24.84%, which is relatively

similar to that of earlier respective studies in Finland (see Larimo & Rumpunen, 2006). Comparing the participating firms with non-participating firms, and early responding firms, no clear differences were found between their size, international experience (*a number of years that firms operating abroad*) and IJV experience (*a number of years that firms involve in joint venturing with foreign firms abroad*).

Among the 49 IJVs, 45% were established in 1988-1995, 55% in 1996-2006; 53 % through acquisitions, 47% through greenfields, 76 % were with 2 partners and 24 % with 3 partners; 61% with indefinite duration, 22% with less than 5 years, 17 % more than 5 years; 41 % of 10%-49% Finnish ownership, 10% of equal ownership, 49 % of Finnish major ownership at establishment; 71% located in emerging economies, and 29% in developed economies; 63% with industrial products, 27 % with consumer products, 18 % with both consumer and industrial products. The summary of the operationalization of the key variables of the study is presented the appendix 1.

4.2. Host Country Uncertainty and IJV Control Structure

Most respondents regard the same countries with the same level of uncertainty like Estonia, Russia, China, etc. In the respect of the perceiving of cultural uncertainty in the host countries, most respondents regard host countries in emerging economies as a high cultural uncertainty (with mean of 2.06; where 1=very high and 5= very low) and developed economies with low uncertainty (with mean of 3.21). The most commonly adopted control structure by Finnish parent firms in the reviewed IJVs found was formal, broad, and tight control 26/47 which accounts for 55.32%. Regarding to Hypothesis 1, over 75% of Finnish parent firms exercised formal, broad, and tight control in their IJVs located in high cultural uncertainty. Less than 25% of the Finnish firms exercised social, narrow, and loose control in high cultural uncertainty. Based on the chi-square test, $\chi^2 = 15.3$ the result was significant at $P < 0.01$ ($df = 5$). Thus, the result supported for H1.

Regarding to Hypothesis 2, as a whole, the hypothesis was not supported. However, the more detailed analysis reviewed that more than 70 % Finnish parent firms exercised narrow and loose control in high environmental uncertainty. However, only 49% of Finnish parent firms exercised social control over IJVs when they perceived high uncertainty environment. Therefore, the result supported hypothesis 2 partly. In

hypothesis 3 over 75 % Finnish parent firms used formal, broad, and tight control in high competitive uncertainty countries. In contrast, when the host countries are characterized with low competitive uncertainty, almost 70% Finnish parent firms exercise more social, narrow, and loose control over their IJVs. Based on the chi-square test, $\chi^2 = 16.7$ the result was significant at $P < 0.005$ ($df = 5$) (see table 2). Thus, the results supported H3.

4.3. Parent Control Structure and IJV Performance

The performance was measured using different measures including level of sales, market share, cost/expenses, efficiency of marketing and distribution, IJV image, level of customer services, labor productivities, R & D activities, quality control, financial results, and total performance. Respondents were asked on a 5 point Likert scale, first the weight given and secondly their degree of satisfaction to all measures. The two most important measures of performance were total performance and financial performance. The mean of financial performance of IJVs in the reviews was 3.4 and total performance was 3.6. This shows that Finnish parent firms are somewhat more satisfied with IJV total performance than IJV financial performance.

Table 2. The results of the study based on chi-square test

Hypotheses			χ^2	DF	Decisions	
Uncertainty dimensions		Control structure				
H1:	High cultural Uncertainty	Broad, Formal, Tight	15.30	5	significant at 0.01	
H2:	High environmental Uncertainty	Narrow, Social, Loose	9.73	5	not significant	
H3:	High competitive Uncertainty	Broad, Formal, Tight	16.70	5	significant at 0.005	
Country uncertainty						
		Control structure				
		Performance				
H4:	High	Broad, Formal, Tight	+	12.43	5	significant at 0.05
	Low	Narrow, Social, Loose	+	15.13	5	significant at 0.01

In addition, the findings of the study shows that in high uncertainty countries, Finnish parent firms are more satisfied with their IJV performance (mean 3.82) when they exercise formal, broad, and tight control over their IJVs than other control structures (mean 2.95). Based on the chi-square test, $\chi^2 = 12.43$ the result was significant at $P < 0.01$ ($df = 5$) (see table 2).

Similarly, in cases of using social, narrow, and loose control over their IJVs in low uncertainty countries, Finnish parent firms also seem to be more satisfied with IJV performance (3.90) than other control structures in IJVs in low uncertainty (2.40). Based on the chi-square test, $\chi^2 = 15.13$ the result was significant at $P < 0.01$ ($df = 5$) (see table 2). Thus, the results supported H4.

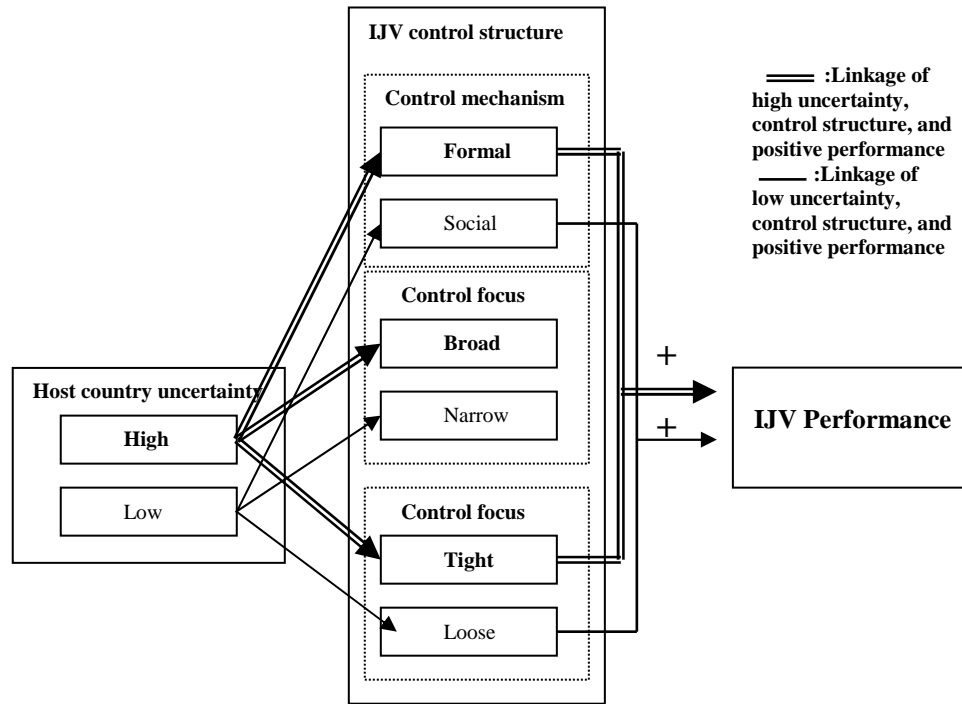
5. Summary and Conclusions

The present paper offers a valuable insight into these challenges and evidences some traits for successful operations in foreign countries through the use of proper control structure by the foreign firms. Since knowing what structure to adapt and change successfully has become critical (Brown & Eisenhardt, 1997; Feldman, 2004). The aim of the paper is to answer the questions: 1) How do foreign parent firms design IJV control to cope with the host country uncertainty? 2) What are the relationships between foreign parent control structure in IJVs and the IJV performance? The results show that in high cultural uncertainty and high competitive uncertainty, parent firms preferred broad, formal, and tight control over their IJVs. In contrast, in high environmental uncertainty, to react fast to the changes of the environments, most firms preferred narrow and loose control.

The present study contributes to the IJV control theory by offering a model of linkage between host country uncertainty and parent control. In more detail, most foreign parent firms want a high level of control that is consistent with their bargaining power (Calantone & Zhao, 2001). However, the present study suggests that, in order to operate successfully in foreign countries, the foreign parent firms need to have a comparable IJV control structure that fits the IJV operating environments. This finding is consistent with the work by Lynch (1993), in which the

author maintained that the parent control has to agree with the risk and uncertainty of external environments. Previous researchers, for example Birnberg (1998) analyzed the uncertainty which may occur when involving in partnerships but without assessing how firms can cope with it. This paper also extends the previous studies by specifying which control structure could be implemented in the IJVs to deal successfully with different kinds of uncertainty. In particular, in high uncertainty countries, parent firms will need to exercise formal, broad, and tight control over their IJVs to have high IJV performance. On the other hand, IJVs will perform better when parent firms exercise social, narrow, and loose control in low uncertainty country.

Figure 1: IJV control model



In sum, although IJV control has been frequently addressed in the IJV literature, the inquiry into how to manage the IJVs dealing with host country uncertainty remains limited. The study presents one effort to build a more comprehensive IJV theory by providing IJV control model (Figure 1.). We also acknowledge several limitations to our study. First, the sample size of the study is rather small and from only Finnish IJVs. In addition, in the analysis of IJV control, we focused on only two main IJV control structures including formal, broad, and tight control and social, narrow and loose control. However there may be possible of other combinations of

IJV control structure which include three dimension of control. For further studies, researchers could use the framework of the study with bigger sample size and foreign parent firms from several countries. In addition, researchers could also investigate how the foreign parent firms exercise their control in their IJVs in order to cope with other specific factors that contribute to the uncertainty in the host country, such as the fluctuation of the interest rate and the supply and demand uncertainty. In addition, because IJVs evolve overtime, further studies are also needed to investigate the dynamic of the parent control over IJVs to deal with the host country uncertainty along IJV life cycle. Finally, it is interesting to know whether control of the emerging markets located IJVs vary with the developed markets located IJVs.

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Appendix I: Operationalizations of the present study

Control dimensions

. **Control mechanisms:** Measured on a 5 point-scale, the respondents were asked to assess their method of monitoring and control of the IJVs.

Formal control

- a. Participation in the venture board meetings;
- b. Appointment of key venture personnel;
- c. Incentive plans for top management;
- d. Financial reports
- e. Exercising veto rights at the board meetings;
- f. Taking part in planning JVs budgets;
- g. JV general manager participates in parent worldwide;
- h. Parent-venture face to communication, formal meeting;
- i. Participation in JV's decision making;
- j. Control based on equity share

Social control

- k. Feedback;
- l. Parent-venture informal socialization (informal phone call, outdoor activities);
- m. Parent training of venture managers

Control mechanism is formal if parent firms exercise more on formal mechanisms (from a. to j. with response value equal or greater than 3. On the other hand mechanism is social if parent firms exercise more on k. to m. with the value from 3 to 5.

. **Control focus:** Measured on a 5 point-scale, the respondents were asked to assess the focus areas of their monitoring and control of the IJVs.

- | | | |
|-----------------------------|-------------------------------|-----------------------------|
| a. International marketing | b. Local marketing | c. Domestic sales |
| d. Human resources | e. Procurement | f. Production |
| g. Quality control | h. Prices and costs | i. Financing and accounting |
| j. Research and development | k. Local government relations | l. General management |

Control focus is **narrow** if the parent firms exercise over some selected areas (over 1 to 3 areas from the above list). On the other hand, control is **broad** if they exercise more than 3 areas (from the above list) or whole areas of IJV activities from a. to l.

. **Control extent:** degree of control which is exercised over the IJVs based on control mechanism and focus. Control extent is **tight** if parent firms exercise more than three control mechanisms and broad control. Control is **loose** if parent firms exercise less than three control mechanism and narrow control

Uncertainty dimensions

. Perceiving cultural uncertainty

. Environmental uncertainty

. Competitive uncertainty

Uncertainty dimensions were measured on ordinal scale from 1= "very high" to 5= "very low"

Host country uncertainty: is a mean of cultural uncertainty, environmental uncertainty, and competitive uncertainty

Performance: was measured on 5 point-scale, respondents were asked if they satisfy with IJV performance with 1= "very unsatisfied" to 5= "very satisfied"