

# **Influence of Relational Factors on International Joint Venture Performance (paper 136)**

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## **Abstract**

The objective of this paper is to investigate the influence of relational factors (trust, co-operation, commitment and satisfaction) on international joint venture (IJV) performance. Although relationships, interaction and networks in business markets have been well documented (Turnbull and Cunningham, 1981; Håkansson, 1982), there is a lack of research analysing relationships between international joint venture partners. A joint venture parent company needs to understand how to interact with their partner, in order to prevent possible conflict. China's recent entry into the World Trade Organisation, underlines the importance of understanding the influence relational factors have on performance. Twenty-five parent companies have been investigated for the purpose of this study. The influence of relational factors is analysed alongside other important variables investigated in previous studies into IJV performance.

Key words: relationship, guanxi, trust, joint venture, China

## **Introduction**

Most of the research conducted on relational factors in business relationships has concentrated on supplier-customer relationships, and little attention has been paid to dyadic interactions in joint venture relationships. In particular, the impact of relational factors on joint venture performance is poorly understood. Most research into international joint ventures (IJVs) is based on American firms in China. We argue that UK firms differ from American firms in terms of business and cultural practices, so that a gap needs to be filled that explores UK firms in particular. China is one of the most attractive locations for foreign direct investment (FDI) in the world. Many of the world's leading multi-national companies (MNCs) have established joint ventures with Chinese state owned enterprises. One of the favoured methods of market entry into China remains the joint venture. Nevertheless, IJVs experience high failure rates. Evidence suggests that failure to maintain and develop an IJV relationship is a contributory factor to partner conflict, and possibly dissolution. Much has been written on the importance of relationships between Western and Chinese joint venture partners (Davidson, 1987; Aiello, 1991; and Tsang, 1998). However, this has tended to focus on measuring IJV performance through a range of financial and non-financial measures, while neglecting

relational factors in IJV management. A greater understanding of interpartner relationships is required in order to increase the likelihood of success for UK and Chinese parent companies. Further research is therefore required in this area. Having established the importance of IJV relationships, this paper goes on to discuss the relevance of satisfaction, trust, commitment and co-operation to IJV performance. *The purpose of this paper is to determine the level of influence of satisfaction, trust, commitment and co-operation on IJV performance.* The paper attempts to answer the following questions: What is the perceived level of importance of relational factors in IJV relationships, and how can UK parent companies improve IJV performance? Subsequently the paper addresses the research agenda in this field, suggesting that more attention should be paid to the investigation of relational variables in the context of IJV relationships.

We chose to focus on UK-Chinese joint venture relationships. The UK continues to be Europe's leading investor in China. This rapid growth in co-operative arrangements in China, an overwhelming majority of which are equity joint ventures (EJV), presents a challenging opportunity to study international alliances in a new institutional context (Child, 1991) and thus has led to a growing literature on foreign direct investment in China.

The empirical basis for this paper is a qualitative study, involving semi-structured interviews at 25 parent companies, conducted in the UK and China. In addition to the theoretical interest associated with understanding the impact of relational variables on IJV performance the findings have managerial implications. Increasing the likelihood of IJV success is of real interest to both existing and potential entrants to the Chinese market. Therefore, the results of this research contribute to the management literature on IJV performance.

## **Research Methods**

Qualitative research was chosen to create a holistic picture of the possible impact of the relational factors on IJV performance. This was in the form of twenty five semi-structured interviews. All but one of the interviewees were senior managers working for a UK parent company, who had been directly involved with establishing the IJV or were directly involved in operating the IJV. The final interviewee was with the Managing Director of a major Chinese company - this was included to obtain a view from a Chinese parent company. The firms selected came from a variety of industries and joint ventures established over different periods of time and located in various cities in China. Qualitative data collection was conducted through interviews and archives (*see table 1 for details of interviewees*). The sampling method was a mixture of snowball sampling and judgemental sampling. Of course, a major constraint on research such as this is obtaining access to key decision makers. Once a contact had been established within one joint venture, this was used to try to negotiate additional contacts for further interviews (snowballing). The methods used to analyse the qualitative data include content analysis and a general analytical procedure.

Measurement of IJV performance was based on fulfilment of strategic objectives. In line with work by Schaan (1983, 1988) and others, joint venture performance is determined by whether each partner assesses that it has achieved its strategic objectives. Support for

partner goal achievement as a preferred joint venture performance measure is bolstered by the fact that the use of traditional financial performance measures is frequently not feasible because of a lack of available data (Hatfield *et al.* 1998).

## **Literature Review**

In this section we examine the prior literature concerning four key relational constructs. These constructs are – trust, commitment, co-operation and satisfaction.

### *Trust*

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

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

Development of a trustworthy partnership has been argued to be the most effective way of prolonging a business relationship. Research has shown that the Chinese tend to place great emphasis on developing relationships built on trust. They appear to be quite suspicious and cold towards strangers with whom relationships have not been established (Yau, 1988). Trust in the Chinese culture has been described by Fukuyama (1995) as ‘in-group’ trust at the personal level, whereas trust in Western culture is ‘system trust’ built up at the organisational level (impersonal). This systems trust is tied to formal, societal structures, which have an existence separate from the material preferences, motivation and actions of individuals. What underlines systems trust in many respects is the contract. Companies may refer to a relationship with their partner as a ‘trusting’ relationship in the knowledge that if anything should go wrong, they can always rely on the contract to fall back on. Systems trust in Western society has been severely tested in recent years in light of the well-published events surrounding the collapse of Enron and WorldCom. Many

investors and customers are asking the question ‘who can we trust?’ WorldCom in particular was a major shock to many in the U.S.

Kumar *et al.* (1995) argue that trust is a multi-dimensional construct and that two dimensions are trust in *credibility* and trust in *benevolence*. Sako (1992) discussed three different dimensions of trust in interfirm relationships: *contractual based trust*, *competence based trust* and *good will based trust*. Contractual based trust refers to the expectation that a partner will carry out a task because it is underwritten by the contract. In other words, if a company were to comment ‘we trust our partner to deliver on time.’ It is in the knowledge that they have an obligation to do so under the terms of the agreement. Failure to fulfil their responsibility under these terms, may lead to the partner referring to the contract or possibly taking legal action. As mentioned, this type of trust is very much linked to Western business. Chinese firms tend to view trust at a personal level rather than linked to a contract. Competence based trusts refers to an expectation that a company will perform its role competently. For example, in the case of an IJV car manufacturer, expectation on behalf of the foreign firm that their Chinese partner will produce motor vehicles adhering to safety regulations. The third dimension, goodwill-trust is explained by Sako as follows: ‘The key to understanding goodwill trust is that there are no explicit promises which are expected to be fulfilled, as in the case of contractual based trust, nor fixed professional standards to be reached, as in the case of competence based trust.’ An illustration of this is a foreign partner showing commitment to an IJV by increasing its investment in the project.

Trust between Western and Chinese firms probably carries greater importance than trust between purely Western alliances. Gill and Butler (2003) argue that trust is an important factor in business relationships across national cultures. The authors note the actions that would damage trust vary between national cultures. For British managers trust is likely to be damaged by the failure of the other party to meet its contractual obligations. Chinese managers would be concerned by a lack of goodwill, poor personal relationships and failure to provide practical help and support. The Chinese concept of trust is very much centred on establishing personal trust. Consequently, the issue of the contract carries less significance in Chinese culture. Cullen *et al.* (2000) suggest that trust is important for a number of reasons. First, managers must default to trust since the contract cannot allow for every contingency and it is not feasible to constantly re-write the contract. Second, an alliance of two or more companies creates a strong potential for dysfunctional conflict and mistrust. Thirdly, trust involves learning, for example, exchanging information on technologies. Therefore, a high level of trust and norms of exchange might be crucial for joint venture success (Beamish, 1987). It is often difficult to build trust between two companies that originate from different cultural backgrounds. For example, Cousins and Stanwix (2001) found that the absence of ‘goodwill trust’ was a difficulty in Japanese inter-firm relationships. In the absence of trust, the UK partner in a Chinese/British IJV may fear that the Chinese partner will act opportunistically, by taking the proprietary technology in the business venture and exploiting it for their own ends.

Currall and Inkpen (2002) define IJV trust as ‘the decision to rely on another party (i.e., person, group or firm) under a condition of risk.’ They argue that trust can be measured at

the person, group and firm levels. By adopting a multilevel approach to trust, methodological rigour can be enforced. The authors criticise studies that base trust at the personal level, then subsequently claim trust exists at the firm level (see Parkhe, 1993). They stress the importance of measuring trust using appropriate methodology. Several multi-level trust measures are enumerated. Firstly, trust between persons (IJV managers) can be measured using content analysis of IJV board meeting minutes or actual observation of the meetings. Secondly, trust between groups (of IJV managers) can be measured using a group discussion procedure in which members provide a single response as a group to a specific set of questions. Thirdly, measures used for trust between firms (IJV partners) can be based on archival data relating to corporate statements, or IJV shareholder agreements.

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

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

*'There's a lot of mistrust between the Chinese and the foreigners.'*

*'I was very trusting in the beginning, I am very cautious now.'*

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

Although, Currall and Inkpen (2002) acknowledge that decisions at the firm level are made by the corporate board, their proposed measures of trust between firms are inappropriate when measuring trust between Western and Chinese parent companies. First, the Chinese concept of trust (*xinyong*) is based on personal trust. This cannot be measured using written documents such as shareholder agreements. When measuring trust in China an emic (culture specific) approach needs to be adopted. Corporate statements and shareholder agreements will not contain every detail of a joint venture relationship. The only means of empirical research into trust in China is to adopt the

survey and/or interview method of data collection and analysis. Ideally interviews based on a number of parties involved in a joint venture e.g. parent company managers, joint venture general manager; local government should be carried out. This will allow for methodological reliability and validity. It is unrealistic to measure IJV firm relations using corporate documents in China. Unless one has excellent 'guanxi', it is more or less impossible to access this kind of information. One reason why the majority of research conducted into Chinese IJV performance is based on small/medium-sized samples is due to difficulties in accessing IJV data.

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

- *Previous history* – this is the stage before the parties meet to negotiate the joint venture. During this stage one party may construct an initial mental image of the other party with whom they will create the joint venture.
- *Negotiation* – The parties come together in order to negotiate.
- *Commitment* – The will of the parties meet, when they reach an agreement on the obligations and rules for future action in the relationship.
- *Execution* – the commitments and rules of action are carried into effect.

Renegotiations may take place after each period of execution during official board meetings. When one or both parties cannot maintain the commitment; the IJV relationship will cease to exist. It is at this point that the Boersma *et al.* (2003) stages model fails to stress the consequences in relation to trust as a result of IJV dissolution. It is in the interest of both parties to finish an IJV relationship on good terms. If this can be achieved it maybe possible for a high level of trust to remain intact.

For this paper, trust is treated as a relational factor to determine the possible influence it may have on IJV performance. Trust is measured based on benevolence and credibility following similar measures to those used by Ganeson (1994) and Sako and Helper (1998). Our definition of trust is defined as 'the willingness to rely on a JV partner and expect it to behave in a mutually acceptable manner.' This definition is adapted from existing studies on interorganisational trust (Ganesan 1994; Sako and Helper, 1998; and Zaheer *et al.* 1998)

#### *Commitment*

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

Cullen *et al.* (2000) describe trust and commitment as the 'social fabric' of the relationship. Commitment is an essential ingredient for successful long-term relationships (Walter *et al.* 2000). A number of authors stress long-term commitment as being one of the main reasons for the prolongation of joint ventures (Killing, 1983; Beamish, 1987; Buckley and Casson, 1998). Like trust; commitment has become an important part of relationship marketing research (Morgan and Hunt 1994). It has been described as a lasting intention to build and maintain a long-term relationship (Dwyer, *et al.* 1987). In their study of the impact that satisfaction, trust, and relationship value have on commitment; Walter *et al.* (2000) found these constructs represent the most important aspects of business relationships.

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

Gundlach *et al.* (1995) describe commitment as having three different dimensions. *Affective* commitment describes a positive attitude towards the future existence of the relationship. *Instrumental* commitment is shown whenever some form of investment in the relationship is made. Finally, the *temporal* dimension of commitment indicates that the relationship exists over time. In the case of joint ventures, it may be the case that the longer a joint venture continues to exist, the greater the commitment to the relationship. However, this is perhaps a simplistic measure, since other factors e.g. legal regulations may mean it is difficult to terminate an existing IJV. Also, it may not be high on the agenda for foreign firms in terms of business priority. Since China's accession to the World Trade Organisation (WTO), many Western companies involved in IJVs with Chinese firms now have the option of becoming wholly owned foreign enterprises (WFOEs). Those that prefer to stay in a joint venture indicate their commitment to the relationship. Consequently, both parties may display their commitment to a relationship simply by continuing with the venture.

Committed partners will consider long-term gains rather than short-term advantages. In such cases the frequency and intensity of conflicts can be expected to be relatively lower; and, therefore, higher levels of commitment should positively affect JV performance and partner's satisfaction with JV activities. For this study commitment is considered to be an important antecedent of joint venture performance. The obvious example of commitment between Western and Chinese partners is the intention to maintain a long-term relationship. The majority of Western companies in China have yet to make a profit; they

understand they are in it for the long-term. This paper includes measures used for commitment that pay particular attention to affective commitment, in other words, positive attitude. The measures used reflect the dimensions proposed by Gundlach *et al.* (1995), in that they provide a more in-depth analysis of the construct.

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

Scanzoni (1979) argues that commitment contains three measurable criteria: inputs, durability and consistency. *Inputs*: From the IJV perspective, both parties provide a high level of input. Significant economic, communication and/or emotional resources may be exchanged (Dwyer *et al.* 1987). In the case of an IJV, this is likely to include technological expertise, financial knowledge, local/cultural knowledge and access to market. The latter being provided by the Chinese partner. *Durability*: This should develop over time. Durability presumes that the parties can discern the benefits attributable to the exchange relation and anticipate an environment that will support continued effective exchange (Dwyer *et al.* 1987). The final aspect of commitment is the *consistency* with which the inputs are made to the association (Dwyer *et al.* 1987). If one party's input levels fluctuate, its partner will have difficulty in predicting the outcome of the exchange. In other words, inconsistency equates to low commitment. If one partner is inconsistent with its exchange, undoubtedly its partner is less likely to rely on the outcome of the exchange. Levinger and Snoek (1972) argue that social bonds tend to weaken and dissolve unless actively maintained. Certainly when dealing with a Chinese partner, social bonding is an important part of the relationship development process. Failure to maintain regular communication, adapt to cultural differences and actively exchange information with a Chinese firm is not only likely to weaken a relationship, but may also lead to IJV dissolution.

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

A lack of cultural understanding and adaptability has been cited as a major reason why foreign-Chinese IJV's fail. Cullen et al. (2000) proposes that multinational managers need to take into account the following when developing trust and commitment in international alliances: pick a partner with trust in mind. There must be belief that a trusting relationship can be developed. This may prove difficult if one partner already works with its partner's key competitors. Seek a level of trust and commitment that is appropriate for your strategic goals for the alliance. Time is a major issue here. In the case of IJVs, many foreign firms are in it for the long haul, up to 25 years or more.

### *Co-operation*

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

Tiessen and Linton's (2000) study on co-operative and competitive behaviour in North American and Japanese joint ventures found that partner compatibility was positively linked with co-operation, which was associated with better joint venture performance. Their findings suggest that where parent firms are similar in terms of management style mutual trust and commitment to the venture are more likely.

Normally in Western society, cooperation, like trust between firms is underwritten by the contract. In other words, if partner A does not fulfil their obligation under the contract, then partner B is in a position to terminate or take legal action. However, as mentioned, in China the contract does not have the same meaning as in Western society. There is far greater emphasis on relationships. For a Western firm to continuously refer to the contract would adversely affect the level of trust and cooperation the Chinese firm has towards their partner.

The importance of cooperation is recognised in this paper and is analysed in order to identify the possible influence on joint venture performance. The measures used are adapted from Yan and Gray (1994), and based on the following definition of cooperation 'Joint venture partners work together towards the same end, purpose and are flexible in their approach.'

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

### *Satisfaction*

Satisfaction relates to performance of the key elements of the exchange process (Möller and Wilson, 1995). This construct is very important in a buyer-seller relationship. Continuous satisfaction in a relationship is likely to lead to long-term commitment between the two parties. The same principle applies to joint ventures. For example, information exchange between a Western and Chinese parent company may involve sharing ideas on technology. Gaining access to new technologies is widely regarded as a key factor in Chinese firms establishing joint ventures with Western companies. According to Walter *et al.* (2000), satisfaction is based on past experience with an actor. A measure for satisfaction based on this definition is unlikely to be appropriate for IJV relationships. Given the short-term duration of many Western-Chinese IJV's, measuring on this basis is likely to provide many instances of problematic situations. This is because developing satisfaction, along with trust and commitment is likely to be a long-term process.

In this study, satisfaction was analysed in order to identify the possible influence on joint venture performance. Parent firm satisfaction may develop over time, being determined by factors such as trust and achieving profits. The partners' perceptions of the relationship will be based on their previous interactions. Satisfaction in this case is largely related to satisfaction with the joint venture partner. It is worth noting that during the early stages of an IJV it is very likely both partners may not be wholly satisfied with their relationship because they are still 'finding their feet'. Misunderstanding is likely to occur, particularly as a result of cultural differences. However, if challenges are resolved with a satisfactory outcome, this will have a positive impact on joint venture performance. Perhaps one way to look at what affects satisfaction is to consider what generates dissatisfaction which may ultimately lead to dissolution. Examples of dissolution include failure to achieve strategic objectives, poor performance (financial/non-financial) and partner not fulfilling their role in the agreement. However, dissatisfaction can commonly be attributed to 'differences' between parties. These can be local (organisational) cultural differences, national cultural differences, and differences in strategic objectives. Willingness to adapt and a common understanding of objectives, as well as trust, have been highlighted as key factors in maintaining satisfactory IJV relationships.

It may be possible to measure satisfaction on the basis of the length of time the IJV relationships has existed. In other words, a 15-year relationship may suggest satisfaction

in that both parties are still together. However, like time and commitment, this perhaps is a rather simplistic view, in that both parties may wish to terminate the agreement, but are unable to do so as a result of legal reasons. Or one or the other may be in the process of seeking a new partner.

## Results and Analysis

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

Interviewee Position	Equity Stake	Industry	Location of IJV
Director	25% UK / 75% Chinese	Food and agriculture	Nanjing
Group Marketing Manager	CJV	Building materials	Wuhan
Chairman	CJV	Electronics	Beijing
Managing Director	50% UK / 50% Chinese	Chemicals	Wuhan
Director	CJV	Telecommunications	Shanghai
Deputy General Manager	50% UK / 50% Chinese	Chemicals	Fuzhou
Finance Manager	49% UK / 51% Chinese	Transportation	Qingdao
General Manager, Asia	50% UK / 50% Chinese	Transportation	Shanghai
General Manager	65% UK / 35% Chinese	Building Materials	Shanghai
General Manager	49% UK / 51% Chinese	Transportation	Qingdao
Marketing Manager	45% UK / 55% Chinese	Resources	Beijing
Executive Director	55% UK / 45% Chinese	Mis Indus equip	Shanghai
Head of Sales & Marketing	67% UK / 33% Chinese	Electronics	Baoying
Director of International Trade	CJV	Retail	Shanghai
General Manager	45% UK / 55% Chinese	Transportation	Beijing
Managing Director	60% UK / 40% Chinese	Consultancy	Beijing
General Manager	55% UK / 45% Chinese	Misc Indus equip	Shanghai
General Manager	50% UK / 50% Chinese	Chemicals	Wuhan
General Manager	50% UK / 50% Chinese	Medical	Qingdao
Business Dev Manager	CJV	Engineering Services	Beijing
General Manager	CJV	Consultancy	Beijing
General Manager	50% UK / 50% Chinese	Chemicals	Shanghai
General Manager	CJV	Electronics	Yunnan
Director**	66% Chinese / 44% UK	Banking	Beijing
Finance Manager	50% UK / 50% Chinese	Chemicals	Shanghai

Our empirical findings indicate that trust and commitment are important factors in determining the nature of the IJV relationship, and subsequently the performance of the IJV. In some cases the UK firm is seen to be the more trusting than their partner. As a General Manager for an oil producing company remarked:

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

This quotation also suggests that improved trust and commitment may depend on the length of time the IJV has been established. Also, it is interesting that the interviewee perceives that Chinese managers hold on to information until asked for it. This may indicate that the Chinese expect relationships to be established at the personal level before sharing information, rather than simply handing over everything that might be expected by the UK partner.

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

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

**(Managing Director, UK Telecommunications Company)**

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

Another interviewee explained that trust and commitment in China cannot be enforced by a contract, because in China contracts do not carry the same weight as in many Western countries (a point that has been made by previous researchers in the field).

*“We do collaborate. We have to very careful whom we work with because we give a lot of technology away. You can sign as many secrecy agreements as you want but frankly the paper’s worthless in China I think. Everybody knows what everybody else’s business is. That’s one of the reasons I picked Wuhan rather than Shanghai or Tianjin where all*

*the dyestuff companies are, because I wanted to be away from them all. None of our people, although they are qualified chemically they know very little about the commercial side. We have trained our own people on the production side. They are basic chemists but know little about dyestuffs.”*

**(General Manager, European Chemical Company, Wuhan)**

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

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

**(General Manager, UK Telecommunications Company)**

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

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

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

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

Question: Do they refer to the contract?

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

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

A good example of taking a flexible approach and working closely with a partner is the following illustration given by the Sales and Marketing Manager of a UK Scientific research company.

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

Many respondents commented on the Chinese being extremely tough negotiators. Comments included difficulty in understanding the message received from their Chinese partner, cultural difficulties and the lengthy time period required to finalise the joint venture contract.

*“Whether they were seriously interested in us or not. I was getting mixed signals and it was very difficult to interpret these mixed signals. The rival company to ours had actually visited China before us. When I gave my presentation on the first day. I passed about 10 members of the observatory staff and others. And there was one piece of paper on the table in front of a rather stern looking figure from Beijing and this piece of paper, which I could read upside down quite easily, was a brief from our rival company.”*

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

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

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

**(Director, UK Engineering Company)**

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

*“The way it works – before the tender bid we were communicating via e-mail, probably every week. Also, Dr Woo would ring up people in China and talk to them quite regularly. On occasion I’ve rang up China as well. I think I’ve been out to China 5 or 6 times over the last 18 months. This is in connection with this project. Now we are at the stage where a lot of our people are in very regular contact with them indeed. Because the design work still has to be checked out and its got to be approved their end. Quite a lot of communication goes on. E-mail, fax, that sort of thing.”*

**(Sales and Marketing Manager, UK Scientific Research Company)**

*Table 2: Shows content analysis: Factors in IJV performance*

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

Table 2 shows a content analysis of the frequency with which relational variables were mentioned during the qualitative interviews. The results suggest that trust and commitment are important factors likely to affect IJV performance. Previous studies into IJV performance and commitment tend to show trust and commitment as a key determinant of IJV performance (Killing, 1983; Beamish and Banks, 1987, Hu and Chen, 1996). For example, in their study of sino-foreign joint venture performance, Hu and Chen (1996) conclude that performance is more dependent upon partner-related factors such as partner commitment, and number of partners, than joint venture or environment related factors such as product/industry characteristics and location of joint ventures. However, the inclusion of trust as a variable does not always work the way one might predict (Han and Wilson, 1993), which may be part of the difficulty in defining trust within studies. A greater number of options open to foreign companies, may mean that they view the joint venture as a short-term commitment, possibly with a view to ‘going it alone’ when the regulations allow. Wong *et al* (1999) note that a joint venture should be viewed as a means to an end rather than as an end in itself. Because the Chinese have made great strides in adapting to the Western mindset, an environment now exists in which foreign managers can realistically envisage greater control over their Chinese operations and seriously consider the creation of wholly-owned subsidiaries, a strategy

not previously thought realistic. To some western managers the joint venture may be perceived as a second-best market entry method because it cedes too much control to the Chinese partner. When there was no alternative, the IJV was the only option to gain access to the potentially lucrative Chinese market. However, as the new option of a wholly-owned foreign enterprise becomes available, western firms may prefer this option because of the greater perceived control it gives them – in accordance with resource-dependence theory it is to be expected that firms will act to reduce their dependence on others (Pfeffer and Salancik 1978).

Regarding the relationship between co-operation and IJV performance, again, results show that co-operation is an important part of many IJV relationships. Failure to co-operate thus leading to possible conflict and dissolution. The importance of co-operation to IJV performance is echoed by Kanter (1994) who suggests that a positive relationship exists between inter-partner co-operation and high levels of JV efficiency and profitability. Tiessen and Linton (2000) found that the degree of parent co-operation was strongly linked to venture performance. However, his study was based on Japanese-North American ventures. Lax and Sebenius (1986) comment that partners cannot be completely trusting because this makes them too vulnerable, but they cannot be completely untrusting because it harms co-operative efforts.

## **Conclusions**

This paper has presented empirical findings into the influence of trust, commitment, satisfaction and co-operation on IJV performance. We have found that trust appears to be the most important of the relational factors on IJV performance, followed by commitment, co-operation and satisfaction. Although not addressed in this paper, but suggested by the qualitative research as an area for future work, understanding Chinese cultural values also needs to be recognised as an important factor of IJV relationships. It appears that UK firms can improve IJV performance by paying greater attention to relational factors. Empirical findings suggest a relationship between trust and commitment. However, further research is needed to explore this. For example, a Western partner may be less committed to the relationship because they envisage buying out their IJV partner within 12 months. Thus commitment in the form of financial input, knowledge transfer and long-term planning will become less obvious.

Certainly evidence from the findings suggests that closer collaboration is likely to increase levels of trust and commitment between IJV parent companies. The findings also indicate that high relationship value is likely to have a positive impact on IJV performance. This result corroborates previous findings (Yan and Gray, 1994) regarding the strong positive linkage between the interpartner working relationship and overall performance.

On the basis of our findings, we suggest that trust, commitment, satisfaction and co-operation be included as part of a conceptual model into IJV success factors. Understanding and adapting to Chinese cultural values also appears to influence IJV performance, however, this calls for further empirical research.

Relational factors and their influence on IJV performance is a topic which requires greater attention by researchers. Other relational factors explored by IMP in the context of buyer-seller relationships should be explored in the context of IJVs. Joint ventures between parent companies from different cultural backgrounds are likely to show different characteristics to those involved in domestic buyer-seller relationships. Joint ventures continue to experience high dissolution rates, therefore a better understanding of the theory and management practice of IJV relationships and performance is required.

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