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Identifying Shared Key Success Factors for International Joint Ventures in China

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Declaration:

Hereby I declare that this doctoral thesis, my original investigation and achievement, submitted for the doctoral degree at Tallinn University of Technology has not been submitted for doctoral or equivalent academic degree.

Xiaosong Zheng



signature



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**Peamiste jagatud edutegurite tuvastamine
Hiinas toimivates rahvusvahelistes
ühisettevõtetes**

XIAOSONG ZHENG



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List of Publications

The list of author's publications, on the basis of which the thesis has been prepared:

- I Wang, L.; Jiang, F.; Li, J.; Motohashi, K.; Zheng, X. (2019). The Contingent Effects of Asset Specificity, Contract Specificity, and Trust on Offshore Relationship Performance. *Journal of Business Research*, 99, 338–349. (ETIS 1.1)
- II Zheng, X.; Larimo, J. (2014). Identifying Key Success Factors for International Joint Ventures in China: A Foreign Parent Perspective from Finnish Firms. *E+M Economics and Management*, 17(2), 106–119. (ETIS 1.1)
- III Zheng, X. (2014). Factors Influencing Location Selection in Inward Foreign Direct Investment to China. *Journal of Applied Management and Investments*, 3(1), 41–51. (ETIS 1.2)
- IV Zheng, X. (2011). The Effect of Trust on International Joint Venture Performance in China. *International Journal of Economic Behaviour*, 1(1), 79–96. (ETIS 1.2)

The publications are attached in the appendix at the end of the thesis.

Author's Contribution to the Publications

I made main contributions to these papers in the thesis. Detailed explanations of my contributions to the papers are explained as follows:

- I I developed and wrote research hypotheses. I contributed to the conceptual model development and empirical data analysis in the paper.
- II I designed the conceptual model and wrote the paper. The co-author helped me to have access to case studies and provided some case study materials. I did all data and case analyses in this research.
- III I was the sole author of the paper. I defined the research questions, developed the research hypotheses and proposed the conceptual model, collected research data and did analysis. I wrote and refined the paper.
- IV I was the sole author of the paper. I defined the research questions, developed the research hypotheses and proposed the conceptual model, collected research data and did analysis. I wrote and refined the paper.

Abbreviations

BSC	Balanced Scorecard
EVA	Economic Value Added
FDI	Foreign Direct Investment
IJV	International Joint Venture
IJV 2.0	A phase from 2010 to now for those IJVs with a focus on innovation and knowledge learning through formal and informal inter and intrafirm control mechanism to enable responsible and sustainable business
IP	Intellectual Property
IPMS	Integrated Performance Measurement System
JIBS	Journal of International Business Studies
MNC	Multinational Corporation
OBOR	One Belt One Road
OECD	Organisation for Economic Cooperation and Development
PM	Performance Management
RBV	Resource Based View
ROA	Return on Assets
ROI	Return on Investment
SME	Small and Medium-Sized Enterprises
SMOPEC	Small and Open Economics
SOE	State Owned Enterprise
TC	Trading Corporation
TCE	Transaction Cost Economies
UNCTAD	United Nations Conference on Trade and Development
WIR	World Investment Report
WOS	Wholly Owned Subsidiary
WTO	World Trade Organization

1 Introduction

1.1 Research background, motivation and questions

International Joint Venture (IJV) has been a popular market entry mode in the last few decades for the biggest firms as well as small and medium-sized enterprises (SMEs). IJV is one of the most popular forms of Foreign Direct Investment (FDI). IJVs in China has been popular with foreign firms because of China's huge market together with the outstanding economic performance. Many foreign firms are going to China to look for a new market for their products and services. In fact, China's One Belt One Road (OBOR) Initiative in recent years further calls for international alliances such as IJV. IJVs in China are thus entering a new era for which the author personally calls it as IJV 2.0, which could be defined as a phase from 2010 to now for those IJVs with a focus on innovation and knowledge learning through formal and informal inter and intrafirm control mechanism to enable responsible and sustainable business.

In the literature the research on Sino-Foreign IJVs has been clearly growing over the years, but research on IJV success factors is very limited (Yang & Lee, 2002). Based on a study of 205 IJVs in China, Kwok et al. (2019) found that the Chinese unique business environment could partially influence mutual trust among IJV partners. This shows that business environmental uncertainty can influence IJV key success factors such as the "trust" factor. Given China's big size, each and every Chinese city has its unique environment so it will be interesting to study IJV key success factors in the unique Chinese context. This contributes to the context and relevance research gap in the IJV literature (Nippa & Reuer, 2019).

Many studies have also focused on IJVs with parent companies coming from big western countries such as the USA. However, research on IJVs by companies from smaller developed European economies like from Finland, has been extremely limited so far. This study will investigate key success factors for Sino-Finnish as well as Sino-American and Sino-British IJVs and discuss the difference. Furthermore, as Madhok (2006) argues in the decade award winning article of *Journal of International Business Studies* (JIBS) that most existing research on IJV performance tends to focus on a few single factors such as ownership and a shift of focus to case studies to examine relational dynamics is encouraged. Nippa & Beechler (2013) argue that there are insufficient or missing definitions and consideration of IJV contexts and dominance of static, structural models to study IJVs. Nippa & Reuer (2019) reconfirm that it is still valid to have more efforts to study relational dynamics in IJVs, as it is important for many of today's knowledge-based IJVs. In a recent study Bamel et al. (2019) further emphasized the importance to study inter-partner dynamics (such as partner fit, power symmetry and trust) to increase post-formation IJV competitiveness. In addition, one big challenge in IJV research is on the conceptualization and measurement of IJV performance as identification of IJV success factors is based on IJV performance measures (Larimo, 2007). It is important to look into IJV performance measurement for its suitability and adaptability (Arino, 2003). Therefore, this study has a focus on identifying "shared" key success factors (most important key success factors) and performance measurement for IJVs in the Chinese context.

Although there are numerous different IJV key success factors, ironically, the study on "shared" IJV success factors has been largely ignored in the literature and the extant research on this direction is very limited. In the literature, there are only a few articles,

which have examined shared key success factors on different topics. For example, in a case study, Blazejewski et al. (2003) specifically formulated a project to identify shared key success factors for a case company in Poznan Poland. Through three case studies, Ricciardi et al. (2013) found a few shared organisational key success factors for participatory networks in terms of place safety and liveability for elders. Other “shared key success factors” mainly focused on different topics such as product development, language studies, environmental studies etc. In this study the author argues it is important to identify “shared” key success factors as these shared factors will serve as a good reference for IJVs at both formation and operation stages. The word “shared” simply means these success factors are recurrent and are considered the most relevant and important factors for every successful IJV. In other words, all successful IJVs normally embody these “shared” key success factors. Some other success factors may be dependent on realization of the “shared” key success factors. Thus, “shared” key success factors are real enablers of IJV success. Successful factors are also context-dependent. In this study, the context is IJVs in the manufacturing sector of China. The manufacturing sector has the majority of IJVs in terms of both the number of IJVs and investment volume. Chinese cultural and business environment is also unique, thus it provides a unique context to identify and discuss the meanings and performances of “shared” key success factors.

This study is more than a simple review and will have an in-depth discussion on “shared” key success factors. It investigates Sino-foreign IJVs to identify “shared” key success factors, followed by studies of the influence of the identified key success factors on IJV performance. Some of the IJV foreign parent companies in this study are from Finland but in the in-depth study of “shared” key success factors the IJV parent companies come from the USA and UK because these Sino-American and Sino-British IJVs often have a larger size than Sino-Nordic IJVs which makes it possible to perform a large survey to study a specific key success factor. For example, there are many foreign managers and foreign employees in these Sino-American and Sino-British IJVs so it is possible to compare the influence of key success factors between Chinese and foreign managers as well as the basic Chinese and foreign employees. As Nippa & Reuer (2019) also highlighted that “We have also emphasized that there are opportunities for future research to take into account stakeholders that are not receiving significant attention in current empirical research, including policymakers and employees”. In this study, the author included IJV employees in research when investigating the trust factor. Indicative competitive strategies and policies for IJVs in China are also discussed from the IJV and policymakers’ perspective. This is a logical follow-up discussion based on the identification of “shared” key success factors for IJVs in China. Ironically, in the literature, there is a lack of strategy and policy discussion for IJVs in China (Yang & Lee, 2002).

Therefore, there are challenging questions, which need to be carefully answered to ensure IJV success. What are the “shared” key success factors in terms of IJV performance in China? How to measure IJV performance in the Chinese context taking into account the long-term objectives? What are some of the indicative competitive strategies and policies to IJV performance thereafter? In this study, the author will try to answer the above questions by examining some typical IJVs in the manufacturing sector in China. This research will contribute to a better understanding of “shared” key success factors, performance measurement approaches, and competitive strategies and policies of IJVs in the unique Chinese context. The research results will have implications for academic researchers, foreign and Chinese firms, and government policymakers.

The main research question of the study is:

What are the “shared” key success factors and their influence on IJV performance and corresponding indicative competitive strategies to enable responsible and sustainable development of IJVs in contemporary China?

The main research question will be addressed both theoretically and empirically by answering the following sub-questions:

1. What are the “shared” key success factors with regard to IJV performance in China?
2. What are suitable approaches to measure IJV performance in China?
3. What are the corresponding indicative competitive strategies for responsible and sustainable development of IJVs in China?

These questions are answered by mainly examining manufacturing type IJVs because these IJVs are the most typical IJVs in China and studying them will produce valuable insights to IJV success in mainland China. In this study Sino-Finnish, Sino-American and Sino-British IJVs will be studied to obtain and compare results. Sino-Finnish IJVs are used to identify “shared” key success factors but the identified “shared” key success factors are studied in-depth by using Sino-American and Sino-British IJVs because these IJVs are much bigger in size which allows for a large survey between Chinese and foreign managers as well as between the basic Chinese and foreign employees.

The three sub-questions are interconnected with each other. IJV “shared” key success factors are based on performance measurement but key success factors will also determine performance measures. The development of competitive strategies is based on key success factors but the development process itself will also further prove the validity of key success factors. Lastly, the development of competitive strategies is also dependent on performance measurement, which also ensures the effectiveness of competitive strategies. There are four articles published based on this study. The connection of the articles and the three sub-questions is as follows:

1. Sub-question 1 is answered by publications II, III, IV and indirectly answered by publication 1.
2. Sub-question 2 is answered by publication II.
3. Sub-question 3 is answered by publications I and IV.

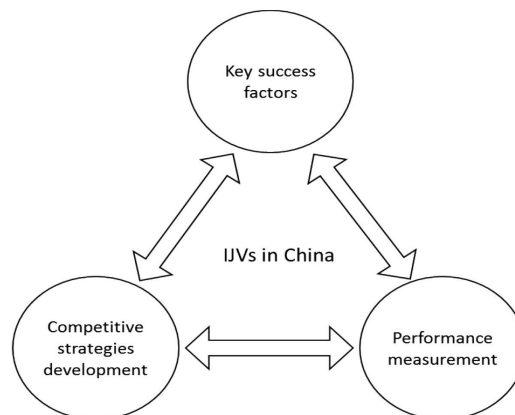


Figure 1. The interconnections of the three sub-questions (compiled by the author)

The interconnections of the three sub-questions are demonstrated in Figure 1. The overall objective of addressing the three sub-questions is to answer the main research question, which has a fundamental objective to help enable a responsible and sustainable development of IJVs in mainland China. In other words, the research will help the realization of IJV2.0 in mainland China.

1.2 Scope and positioning of the study

Although IJV as a popular foreign market entry mode has been studied widely during the last few years, most of the existing research focuses on the influence of separate single factors on IJVs such as the parent company and operational characteristics. The majority of the existing IJV research is on IJVs between China and big western countries, such as Sino-American or Sino-Japanese joint ventures because China receives a large FDI from these countries. The research on IJVs between China and Small and Open Economics (SMOPEC) is extremely little. For example, the research on Sino-Nordic IJVs is very limited in the literature (Wang, 2014; Khalid & Ali, 2017).

In addition, although there is abundant literature on IJVs, Nippa & Reuer (2019) still summarized 50 opportunity directions to further IJV research. Among them, some promising directions are specifically emphasized in this study. For example, Nippa & Reuer (2019) argue that more efforts should be devoted to how to efficiently manage IJVs. IJV performance measurement is important which is also context-dependent. Some important stakeholders, who have not received significant attention so far, such as policymakers and employees, should be taken into account in IJV research. These issues are also addressed in this study.

In this study, IJV success factors are examined with regard to IJV performance. IJV performance takes a system perspective which focuses on strategic performance because some performance is not shown in financial statements and strategic performance often meets the need for the long-term objectives of IJVs better. In China, IJVs often have long-term objectives, thus strategic performance measurement would be more suitable for this purpose. Therefore, more subjective measures are used in this study to match the long-term objectives of IJVs.

This study is innovative in the following aspects. First, a comprehensive framework developed by the author is used for examining factors influencing IJV performance in China. Second, this study contributes to the literature by identifying and validating important IJV success factors in the Chinese context. The important “soft factor” (trust factor) is identified as a key soft IJV success factor in China. The trust factor is further validated and discussed in the Chinese context. Third, the key “hard factor” (location factor) is also investigated in a detailed case study. Early research in the literature often failed to consider the unique Chinese context, for example China is such a big country and each region has its unique subculture, resources, and policies. Therefore, the influence of the location factor on IJV success could be quite different across the country. Fourth, based on the identified “shared” key success factors, indicative strategy and policy implications are also discussed for a better development of IJVs in China. Fifth, in addition to studying IJVs from big western countries, this study has also used Sino-Finnish IJVs, which provide a supplementary view of IJV success factors in China.

A comparison of traditional approaches towards IJV research and the approach adopted in this study is outlined in Table 1.

Table 1. A comparison of approaches in traditional studies and this study (compiled by the author)

Dimensions	Traditional approach on IJV research	The author's approach to IJV research	Difference and explanation
Study object	A focus on IJVs formed between China and big western countries such as USA (Wang, 2014; Khalid & Ali, 2017).	A focus on IJVs formed between China and SMOPEC countries although Sino-American and Sino-British IJVs are also studied for validation purpose.	There is very little IJV research on IJVs between China and SMOPEC countries.
Single factors vs. integrated framework	Traditional IJV studies are on investigating separate and single factors, which influence IJV performance (e.g. Ren et al., 2009).	In this study, the author will build a comprehensive and critical integrated framework which incorporates unique cultural and institutional factors in China.	It is important to use a suitable integrated framework to study IJV performance and success factors in China as single factors do not tell much about the cause and effect relations.
Hard vs. soft factors	The majority of IJV research is on mechanical factors such as the size of the parent company and operational characteristics. These can be called "hard factors" (Author's argument).	In this study, the author will focus on inter-partner relations, such as the trust level between partners. These can be called "soft factors" which are important for IJV performance.	"Soft factors" such as trust could be more significant in influencing IJV performance particularly in China because of the prevailing Chinese Guanxi (connection).
Follow-up competitive strategies development	Traditional IJV research often neglects competitive strategies development for IJVs (Nippa & Reuer, 2019).	This study carefully develops indicative competitive strategies for responsible and sustainable IJV development based on IJV success factors and performance.	One of the fundamental objectives of IJV research is to have indicative (even not conclusive) competitive strategies available to IJVs.

From Table 1, it is clear that the author's contributions in this study are on the four dimensions - namely the study object, single factors vs. integrated framework, hard vs. soft factors, and the follow-up development of indicative competitive strategies.

This study also contributes to some research gaps identified by Nippa & Reuer (2019) who advocate scholars to pay attention to context-based gaps, such as addressing the competitive context and consequences of IJVs and regulatory shifts, and relevance-based gaps, such as involving the existing and new stakeholders. In this study, IJV key success factors and performance are carefully discussed in the Chinese context. For example, the meaning of trust could be different in China from that in western countries making

the factor trust more difficult to understand. The Chinese government has a regulatory shift now to encourage knowledge sharing and learning in IJVs as part of OBOR initiatives. Therefore, indicative IJV competitive strategies must reflect this trend. Stakeholders, such as IJV employees, are also paid enough attention to in this study. Therefore, this study mainly contributes to the context and relevance directions of research gaps identified by Nippa & Reuer (2019).

1.3 Structure and content of the thesis

There are six chapters in the thesis. The structure and content of the thesis are described as follows.

The first chapter is the introductory chapter. It starts with a brief discussion of the study background followed by a detailed description of research motivations and research questions. Then the scope and positioning of the study is discussed. A clear structure of the thesis is also outlined.

The second chapter gives a review and theoretical framework, which comprehensively reviews the theories of IJV research, IJV key success factors, and IJV performance measurement approaches. The author's theoretical framework is also presented in this chapter.

The third chapter is the part of research methodology. In this chapter, an introduction to the research methods used in this study is presented, such as a questionnaire survey, interviews. Data collection and analysis methods are also discussed in this chapter.

The fourth chapter outlines the results and discussion. In this chapter, all research results are clearly presented. Research results are discussed and compared and their implications are outlined. The results are also discussed in a large context.

The fifth chapter is conclusion. In this chapter, research questions are recalled and then answered based on the research results of this study. The limitations of the research and future research directions are also outlined.

2 Literature review and theoretical framework

In the chapter a literature review on the topic area and the author's theoretical frameworks are presented.

2.1 Theories for IJV research

In IJV research, quite a few theories have been adopted to examine various issues in IJV and its performance. These include transaction cost economics (TCE) (e.g. Buckley & Casson, 2009; Hennart, 2019), resource based view (RBV) (e.g. Steensma et al., 2005; Julian & Xu, 2016), organizational learning (Hui et al., 2020), social exchange theory (e.g. Ali & Larimo, 2016; Hebert & Beamish, 2017), institutional theory (e.g. Tsang, 2016), contingency theory (e.g. Holt, 2017), internationalization theory (e.g. Goncalves & Smith, 2019), stakeholder theory (e.g. Park & Cave, 2018). Some researchers combined these theories to do IJV research. For example, recently Khalid & Ali (2017) combined social exchange theory and transaction cost economics to study the antecedents of trust in IJVs.

From the literature review, it is clear that TCE has been used heavily over the years. The majority of the IJV research is done on IJVs outside China. Professor Yadong Luo did much of the Chinese IJV studies. In recent years, in line with China's strategic shift to build a responsible and sustainable economy, IJVs will need to consider satisfying more stakeholders in developing a healthy ecosystem. For this study, it is suggested that stakeholder theory is more appropriate because it measures stakeholders' satisfaction for IJV performance from different groups of people, such as Chinese managers, foreign managers, Chinese basic employees, foreign basic employees, local government, and foreign country government. The traditional evaluation of IJV performance is often emphasized on profitable income of shareholders. Using stakeholder theory to discuss IJVs can better capture the real performance to avoid potential biased views from a single stakeholder (Park & Cave, 2018). This is also consistent with the current IJV 2.0 requirements. Zheng & Zhang (2011) proposed the usage of stakeholder theory for future IJV performance measurement and it is integrated into a comprehensive IJV performance measurement framework.

2.2 IJV key success factors

In the literature, many success factors have been identified for IJVs in different environments. These success factors (in terms of IJV overall performance) have a positive influence on IJVs and are usually called determinants or enablers for positive long-term organisational performance at the IJV level. Although it is not possible to include all factors in the study it makes sense to identify and discuss some key success factors. These key success factors are important factors for IJV success. Based on the literature, these key success factors include control, ownership, commitment, culture, trust etc. (see e.g. the review articles by Yan & Zeng, 1999; Robson et al., 2002; Nippa et al., 2007; Ren et al., 2009; Nippa & Reuer, 2019 and studies by Geringer & Hebert, 1989; Inkpen & Currall, 2004; Lu & Lee, 2005; Madhok, 2006; Li et al., 2008; Buck et al., 2010; Nguyen & Larimo, 2010; Merchant, 2012; Meschi & Wassmer, 2013; Huang et al., 2015; Larimo et al., 2016; Khalid & Ali, 2017; Bamel et al., 2019). These important factors are briefly described as follows.

Control can be defined as a management process that protects the interests of the parent company (Geringer & Hebert, 1989). According to Geringer & Hebert (1989), control refers to the process whereby one party influences, to different degrees, the behaviour and output of another party through the use of power, authority, and a wide range of bureaucratic, cultural, and informal mechanisms. The use of control is widely regarded as critical for IJV performance (Geringer & Hebert, 1989; Child & Faulkner, 1998; Nguyen & Larimo, 2010; Liu et al., 2014; Huang et al., 2015). Through control, a partner influences the joint venture to behave in ways that lead to attainment of the organization's objectives (Calantone & Zhao, 2000). In recent years management control theories have been applied to purposely control IJVs. Proper control must consider the context, for example in the Chinese context culture control is more effective than results control (Liu et al., 2014). The ownership structure is a tool for exercising management control, which is determined by the bargaining power of the partners (Li et al., 2008; Nguyen & Larimo, 2010). The share ownership structure of a joint venture cannot be determined unilaterally but is usually an outcome of negotiations between the investing country and the host country. IJV size and location can also affect success of IJVs to a large extent (Isobe et al., 2000; Buck et al., 2010). Commitment refers to the extent to which the partners are bound to the stability and success of the relationship (Beamish, 1988). This involves the assurance of commitment before embarking on a joint venture with a partner and the encouragement of commitment by the partner throughout the venture's life span. Mutual commitment creates a feeling of shared identity (Lin & Germain, 1999) and facilitates the development of mutual trust and voluntary cooperation between partner firms. Therefore, mutual commitment reduces conflicts, increases cooperation between IJV partners, it also increases the feeling of fairness, and stabilizes relationships between partners. Mutual commitment improves IJV performance both directly through its effect on aligning interests and indirectly through its effect on minimizing conflict. Trust between partners has also been revealed as an important factor that contributes to the success of IJVs (Madhok, 2006; Li, 2008; Buck et al., 2010; Zheng, 2011; Pao et al., 2014; Khalid & Ali, 2017; Hwang & Kim, 2018; Koch & Koch, 2018; Wang et al., 2019) and it can be managed to facilitate the achievement of IJV objectives. Li (2008) found that participation in decision-making and social integration can help retain local senior managers which positively contribute to IJV performance. It is also found that the same participation values between partners can limit free riding and promote performance in international joint ventures which means cooperation and understanding are important for positive IJV performance (Wong et al., 2017). It is also found that access to trusted information about local partners is a critical success factor for IJVs in emerging economies. In other words, information asymmetry could lead to IJV failure (Meschi & Wassmer, 2013). High level learning orientation and knowledge management could also be an important factor to promote IJV performance (Farrell et al., 2011; Pak et al., 2015; Wang et al., 2019). In a recent study, Carnovale et al. (2017) also find that supply chain network structure can produce power, which is a significant explanatory mechanism in the formation of a new IJV and will affect partnership decisions. The powers can be from both vertical and horizontal supply chains and they are different in terms of their effect on the formation of a new IJV and partnership decisions.

Culture is bound around IJVs all the time and some researchers argue that culture does affect IJV performance (e.g. Li & Atuahene-Gima, 2001; Dao, 2016; López-Duarte et al., 2016). Culture has been defined by Hofstede (1980) as "the collective programming

of the mind which distinguishes the members of one human group from another". Hofstede identified originally four cultural dimensions (i.e. Power Distance, Uncertainty Avoidance, Individualism-Collectivism, and Masculinity-Femininity) and later on a fifth dimension – Long-Term Orientation – especially based on the Asian cultures (Hofstede & Bond, 1988). The impact of culture on IJV performance has been the most extensively examined variable in previous research (see e.g. Robson et al., 2002; Larimo, 2007; Buck et al., 2010; Dao, 2016; López-Duarte et al., 2016). Among the five cultural dimensions, Power Distance and Individualism are particularly different between nations (Chow et al., 1999). Lu & Lee (2005) found that Power Distance is positively related to the satisfaction of senior managers in IJVs and Individualism is negatively related to the satisfaction of senior managers in IJVs. Buck et al. (2010) found that strategic commitment is higher in IJVs with partners from similar cultures.

In the literature, many key IJV success factors are identified. These factors can be classified in different ways, for example "hard factors" and "soft factors". In the recent years, "soft factors", such as trust level and partner commitment have been emphasized in IJV research. For example, a recent study on the influence of trust on IJV performance in China reveals that trust can be divided into tangible and intangible trusts and they are significant in predicting survival in joint ventures seven years into the future (Koch & Koch, 2018). Although there are many key success factors identified, a good discussion and analysis is lacking to unveil "shared" key success factors for IJVs in China. Much of the existing research is to identify separate key success factors in a specific context. However, it will be interesting to study the interrelations of success factors and prioritize them to produce "shared" key success factors. For example, mutual commitment and trust could be interrelated. The selection of control mechanism and its effect could also be dependent on trust level. One aim of this study is to have a close look of "shared" key success factors.

In a following case study to identify key success factors, the author classified factors based on three different stages of IJVs: IJV local environment (before IJV formation), IJV formation stage, and IJV operation stage. In this study a focus of identifying "shared" key success factors is laid on the IJV operation stage or post-formation stage. These are explained and discussed in publication II.

2.3 IJV performance measurement

In addition to IJV success factors, it is important to consider performance measurement for IJVs because IJV success factors are subject to IJV performance measurement. In other words, different performance measurement approaches will significantly affect success factor identification. For example, performance measurement approaches could include simple performance measures and more advanced methods containing a mixture of different performance measures. For IJVs, performance measurement can be considered from different levels (such as department or organizational levels), different perspectives (such as IJV's or parent companies' perspectives), different measures (such as financial or nonfinancial measures), different methods (such as quantitative or qualitative methods). Different methods, levels, measures and perspectives all have their own values thus it is difficult to say which one is superior to the other. However, choosing a suitable method/level/measure/perspective should consider the objective and context. In this study, in line with China's objective for building a knowledge-based economy and sustainable development, strategic organisational performance at the IJV

level and qualitative non-financial measures are emphasized. The author considers this approach more suitable to meet the requirements for the objective and context.

Some of the simple IJV measures used in previous studies include satisfaction, financial indicators, survival, duration, instability, and stock-market reaction (e.g. Luo et al., 2001; Larimo, 2007; Duan & Shuai, 2007; Li, 2008; Buck et al., 2010; Merchant, 2012; Meschi & Wassmer, 2013; Huang et al., 2015; Larimo et al., 2016; Khalid & Ali, 2017). IJV performance measures can be classified into objective and subjective measures. The use of objective measures may fail to reflect the long-term goal of IJVs (Lu & Shiang, 2006). On the other hand, using subjective measures in evaluating IJV success will have difficulties because they may contain biased opinions and they are generally not comparable (Osland & Cavusgil, 1996). However, Geringer & Hebert (1991) have found that subjective and objective measures are highly correlated. Using a sample of UK IJVs, Glaister & Buckley (1998) confirmed Geringer & Hebert's findings. Zhan & Luo (2008) suggest that different IJV performance measures can be classified into two groups - namely financial performance and competitive performance. Financial performance includes return on investment (ROI), return on assets (ROA), revenue growth, etc. while competitive performance includes all other measures such as sales level, market position and share, customer satisfaction, organizational reputation and product image, realization of long-term strategic goals. In this study, the author will use a number of subjective measures to examine and compare IJV performance in China. This is because many subjective measures are soft measures, which are more appropriate to measure relational dynamics in IJVs. In this study, the terms "subjective measures" and "soft measures" are used interchangeably. Also, subjective measures are more suitable for testing long-term objectives of IJVs. In addition, the number of cases available is limited in this study, thus subjective measures are more suitable because subjective measures examine the issue in a larger context than objective measures and often provide a more comprehensive and reliable evaluation of the real situation (Yin, 2002).

There are also some more advanced performance measurement approaches in the literature. DuPont Analysis, Economic Value Added (EVA), Balanced Scorecard (BSC), etc. are widely used for performance measurement. DuPont Analysis is a classical method to evaluate a company's profitability and shareholders' equity return level (Kien, 2011). DuPont analysis is a rather comprehensive financial measurement method, which has a focus on short-term accounting data. However, the value of intangible assets is neglected in DuPont analysis. It also lacks subjective performance measurement components. Another popular financial performance measurement method is EVA, which was created by Stern Stewart & Co. Brewer (1999) states that shareholders put more and more emphasis on whether resources are maximally used and whether firms create value under the entrusted agency management system. EVA method, based on the evaluation of firm value creation, makes the maximal balance between the adjusted net profit after tax and the cost of capital to achieve the goal of firms' performance evaluation. EVA is believed to be more suitable for highly independent firms (Wang & Li, 2007). Therefore, it may not be suitable for IJV performance measurement.

BSC coined by Kaplan & Norton (1996) combines both financial and non-financial measures. This kind of performance measurement method is called Integrated Performance Measurement System (IPMS). IPMS is a comprehensive measurement system rather than a simple measure. In theory, IPMS is more suitable for performance measurement of IJVs because it usually combines both financial and non-financial measures and represents both objective and subjective perspectives. A number of IPMS

were discussed in terms of their advantages and disadvantages by Taticchi et. al. (2010). BSC is considered as one of the most famous IPMSs in both academia and industry. Therefore, IPMS such as BSC can be one solution to measure overall IJV performance. Zheng & Alver (2015) developed a modified efficacy coefficient model for performance measurement. The model can also be regarded as an IPMS and it can comprehensively measure both financial performance and nonfinancial performance. Financial performance is based on a number of financial indexes based on accounting data and nonfinancial performance is based on a number of qualitative indexes through interviews etc.

2.4 Research frameworks developed by the author

In this study, the author developed a number of definitions, research hypotheses, and research frameworks, which were used for studying the topic area.

2.4.1 Definition of key terms

It is important to understand the key terms used in this study. The definitions of the key terms can actually represent the focus of the study. Therefore, they deserve a clear and precise definition at the very beginning. The key terms in this study include FDI, IJV, IJV 2.0, success factors, “shared” key success factors, performance measurement, competitive strategies, hard factors, soft factors, trust. These key terms are defined in Table 2.

Table 2. Definitions of key terms used in this study (compiled by the author)

Key term	Definition	Reference
FDI	“Foreign direct investment (FDI) is the category of international investment that reflects the objective of a resident entity in one economy to obtain a lasting interest in an enterprise resident in another economy”.	OECD (2001).
IJV	International joint ventures formed by firms from different countries, usually between a foreign firm and a domestic firm, to collaborate for mutual strategic interests under an incomplete contract.	Adapted from Yan & Luo (2016), Nippa & Reuer (2019)
IJV 2.0	A phase from 2010 to now for the IJVs with a focus on innovation and knowledge learning through formal and informal inter and intrafirm control mechanism to enable responsible and sustainable business.	Defined by the author.
Success factors	These success factors have a positive influence on IJVs and are usually called determinants or enablers for positive long-term organisational performance at the IJV level.	Adapted from IJV literature (e.g. review articles by Yan & Zeng, 1999; Robson et al., 2002; Nippa et al., 2007; Ren et al., 2009; Nguyen & Larimo, 2010; Larimo et al., 2016).

Table 2 continued. Definitions of key terms used in this study (compiled by the author)

Key term	Definition	Reference
Performance measurement	A scientific approach to evaluate if strategic organizational performance at the IJV level has met the long-term objective in a specific context.	Adapted from a number of articles (e.g. Luo et al., 2001; Larimo, 2007; Nguyen & Larimo, 2010; Pak et al., 2015; Larimo et al., 2016).
Competitive strategies	Different strategies to enable responsible and sustainable development of IJVs.	Adapted from Barney (1991) and Peteraf (1993).
Hard factors	Mechanical factors (usually formal and static) such as the parent company's size and equity share which will influence IJV performance.	Defined by the author.
Soft factors	Factors (usually informal and dynamic) which reflect relational dynamics such as trust and conflict level between partners. They are relational inter and intra-partner factors which could influence IJV performance significantly.	Defined by the author.
Trust	At individual level, it is the belief or feeling that the other party is looking out for your best interests. At social level, it is the exchange of partners' embeddedness in a common social orientation and identity that shapes behaviours. Both levels of trust are evident in IJVs.	Adapted from Shou et al. (2011), Schilke & Cook (2013)

The definitions of key terms used in this study are important for the research design and empirical analysis. It is important to note that these key term definitions have a context that they apply for Sino-foreign joint ventures operating in the manufacturing sector in mainland China. Later, they are all applied and discussed in the Chinese context. In other words, the definition of a term depends on the context. On the other hand, IJV research can also benefit "from studies that make use of IJVs as a context to understand more general phenomena (such as trust)" (Nippa & Reuer, 2019). In this study one context component is that foreign parent companies are from developed western countries and they are from a very different cultural background compared with the Chinese parent companies. In other words, the cultural distance is large between parent companies. From a philosophical perspective, the large cultural distance makes a study of IJV success factors more feasible and meaningful. These key terms will be further discussed at later stages in this study.

2.4.2 Identifying key IJV success factors

In this study key success factors for IJV success in China will be identified through a number of detailed cases. Firstly, the author proposes a research framework. Secondly, key success factors will be identified through nine Sino-Finnish IJVs operating in China.

The two most significant key success factors will be validated through questionnaire surveys. As discussed in the literature review, there are many success factors or determinants for IJV success. In order to have a comprehensive examination and comparison the author summarizes all key IJV success factors and they are presented in Table 3.

Table 3. An overview of main success factors/determinants of IJV performance (Publication II)

Determinants of IJV Performance					
1. IJV Local Environment		2. IJV Formation Stage		3. IJV Operation Stage	
Determinants/Drivers	Classification/Explanation	Determinants/Drivers	Classification/Explanation	Determinants/Drivers	Classification/Explanation
Culture	Organizational culture, national culture, cultural sensitivity	Motivation of entry	Motivation to enter the specific country, motivations to establish IJVs from both foreign and local partners' sides, goal congruity	Commitment	Resources commitment, psychological commitment, level of commitment
Economy	Local country GDP, growth rate of GDP, economic policies	Firm size	Foreign parent firm size, local partner firm size	Bargaining power	Resource-based power, context-based power
Government policy	Stability of government policies, cooperation and efficiency of local government	Partner selection	How to find a local partner? How to evaluate and select a local partner?	Control	Strategic control, operational control, structure control, output control, process control, social control
Technology	Technology available, technology and knowledge transfer	IJV experience	Prior FDI and IJV experiences both in the local country and internationally	Trust	Interpartner trust, interpersonal trust, trust between partners and local and foreign governments.
Infrastructure	Logistics and transportation system, telecommunication capacity	Resource	Capital resources, non-capital resources	Justice	Distributive justice, procedure justice, interactional justice
Labor	Labor skills, labor availability, labor attitude, wage level	Timing of entry	When to establish IJVs affects IJV performance, early entry vs. late entry	Conflict	Task conflict, relationship conflict, conflict resolution
Market potential	Market size, market type, local competition level, consumer confidence level	Ownership structure	Percentage of share of ownership, equity and non-equity share of ownership	Conflict resolution	Joint problem solving, forcing, domination, compromising
Legal system	IP protection, local government regulations and legal protection	Sales orientation	Sales directed to a target country or countries	Cooperation	Cooperation between partners, cooperation between partners and local and foreign governments
Quality of life	cost of living, safety and social security system	Long-term focus	Intended duration of IJVs, short-term vs. long-term focus	Age of the IJV	Age of the IJV unit, age of partner relationships

Research on IJV success factors can theoretically be divided into three stages. The first stage of the research is to examine IJV background information such as cultural, economic, political and technological dimensions from all partners particularly for the local partner or target partner. These factors mostly represent the macro level or environmental factors in the local environment where the IJVs are located. In Table 3 these environmental factors include culture, economy, government policy, technology, infrastructure, labour, market potential, legal system, quality of life. Each factor is further explained in more detail. For example, the legal system factor means how efficiently the local government can protect Intellectual Property (IP) as nowadays many high-tech

foreign firms are expanding east to China. The legal system also concerns government regulations on IJVs and the stability of these regulations. The quality of life factor includes the cost of living in the target country, the safety and social security system in the country. These issues may influence the establishment and operation of IJVs. Countries having a poor quality of life tend to accept more FDIs and their bargaining power in IJVs tends to be weak.

The second stage of the research on IJV success factors is to look into situational factors at the IJV formation stage. These situational factors reflect factual data from all partners at the time of IJV establishment. In Table 3 these factors include motivation of entry, company size, partner selection, IJV experience, resource, time of entry, ownership structure, sales orientation, and long-term focus. For example, resources can be divided into capital and non-capital resources. The resource factor usually determines the ownership structure which is a well proven factor that will significantly affect IJV performance. Timing of entry may also influence IJV performance. Foreign companies entering a target market earlier usually have first-comers' advantages over latecomers.

The third stage of the research on IJV success factors is to examine factors related to IJV operation stage. In Table 3 there are commitment, bargaining power, control, trust, justice, conflict, conflict resolution, cooperation, and the age of the IJV. These factors are well represented in the literature and they are classified further in explaining their meanings. However, research on factors such as justice is quite new and it deserves further research. The age of the IJV unit may also influence the IJV performance. Units having operated longer have reached stability in operation and partner relationships, thus it may lead to better performance.

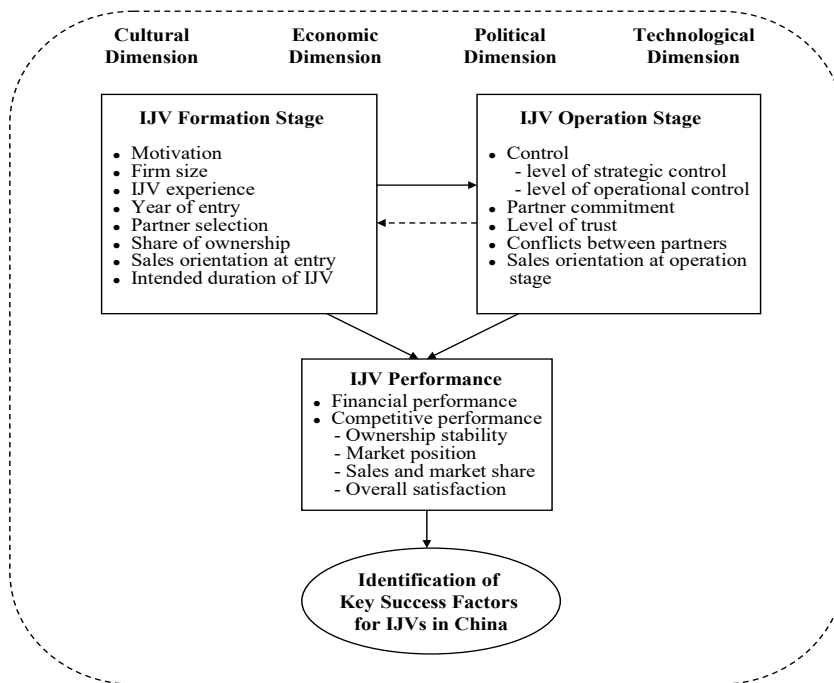


Figure 2. A conceptual framework for identifying IJV key success factors (Publication II)

Table 3 gives a concise summary trying to capture all major IJV success factors. The table is built from research results in the literature as well as the author's own research. Next, the author will develop a conceptual research framework based on the success factors summarized in Table 3 to carry out case studies to identify key success factors/determinants for IJVs operating in China. For this purpose, nine Finnish-Chinese IJVs have been selected in the study. The conceptual research framework is presented in Figure 2.

Those on top of the framework represent IJV local environmental factors and they are expressed as cultural, economic, political and technological dimensions. These are macro-level factors rooted in the local parent country that will affect IJV performance. Next, the author identified the most significant IJV success factors at the IJV formation stage and the IJV operation stage respectively. In Table 3 there is a more complete list of success factors at each stage. However, in practice, the author is not able to examine and test all the factors; instead, the author has had to select most important factors to test their influence on IJV performance based on the case studies and literature review. It would not be feasible to test all the factors in small-scale case studies. Below the IJV formation and IJV operation stages there is the IJV performance. In this study, the author mostly uses subjective performance measures to evaluate IJV performance. The last part of the framework is the conclusion of key success factors of IJV performance in China. These key success factors represent the perspective of a foreign parent.

2.4.3 Trust and IJV performance

Trust is defined as "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party" (Mayer et al., 1995, p.712). Trust is a very important "shared" key success factor because it brings in many benefits, for example it can reduce transaction costs; increase information sharing, performance, efficiency, satisfaction; facilitate knowledge sharing and learning (Dyer and Chu, 2003; Nielsen and Nielsen, 2009; Ertug et al., 2013; Khalid & Ali, 2017). In fact, there are often many problems in inter-organizational relationships and "given the impossibility of complete contracts and the lack of full hierarchical control", trust is an important key success factor and some other success factors are dependent on the trust factor, i.e. trust is a precondition of some other success factors (Das and Teng, 2001; Gulati and Nickerson, 2008). Trust is even more important for IJVs in China given the Chinese guanxi network, which values trust in almost all business dealings. Therefore, there is no doubt that trust is a "shared" key success factor for IJVs in China.

In this section, a study of the role of trust in IJV performance is performed (Zheng, 2011). In this study, the trust factor is analysed at the factor level. It is further validated in an empirical study (Wang et al., 2019). The role of trust in IJV performance has recently attracted a great deal of attention and trust has been recognized as a crucial factor in achieving both financial and non-financial success of IJVs (e.g. Inkpen and Currall, 2004; Madhok, 2006; Li, 2008; Buck et al., 2010; Khalid & Ali, 2017; Wang et al., 2019). Trust is also one of the relational dynamics suggested by Madhok (2006) which is worth having a detailed study. Trust is regarded as a soft factor, which can significantly influence IJV performance. Therefore, it is important to study this factor.

Barney and Hansen (1994) pointed out that mutual trust between parent companies and employees is a major competitive advantage for a firm. In cooperative organizations, trust augments profit due to resource commitment. Relationship building between partners is a challenge for all cooperative alliances (Dyer and Chu, 2000), especially for

IJVs in emerging economies, in which trust is particularly hard to build due to the high degree of uncertainty and risk incurred by the cross-board differences with regard to culture, politics, and trade policy (Child and Faulkner, 1998). Fryxell et al. (2002) found that the reliance on formal control mechanisms and the perceptions of general managers of IJV performance are positively related in younger IJVs, but negatively related in more mature IJVs. This suggests that age and partner trust have effects on the relationship between control mechanisms and perceptions of performance. In a recent study, Wang et al. (2019) found that physical asset specificity and human asset specificity affect relationship performance in an IJV environment and trust moderates the effect of human asset specificity on relationship performance. The stronger the trust the better the relationship performance and this relationship is linear.

Trust in IJV research should be measured at different levels, that is, the interpersonal level, the parent-company level and the organization level (Currall and Inkpen, 2002). Although most studies on trust have focused on interpersonal trust, Zaheer et al. (1998) asserted that interpersonal trust and inter-organizational trust are different constructs that have a reciprocal influence on each other. They found firm level trust to be of greater significance in generating favourable organizational outcomes than interpersonal trust, because interpersonal trust is vulnerable to changes in key personnel and the possible breakdown of interpersonal relationships (Dodgson, 1993). Boersman et al. (2003) developed a process model of trust building in IJVs, and found that different types of trust play different roles in the process. Whereas competence-based trust starts from public information, contractual-based trust and goodwill trust develop through direct personal interaction. In the early phases of an IJV, promissory-based trust predominates, while in mature phases competence-based trust starts to emerge. Goodwill trust is of importance throughout the process.

Inkpen and Currall (2004) tested the trust, control and learning evolution at the parent-company level. They built a theoretical framework to explore the relationship between trust and ownership in IJVs and how they influence the IJV process. Levels of trust differ across national borders, and hence the nature of trust and the institutional and cultural support for trust vary across national contexts (Zalteeer and Zaheer, 2006). A model was developed which concludes that the effect of trust on a company's performance is not always in direct relationship. In the article "How much does ownership really matter? Equity and trust relations in joint venture relationships", Madhok (2006) found out that the number of enterprises who shift their emphasis from ownership to relationship building was increasing. The dissatisfaction accompanied by the emergence of IJVs resulted from overemphasis on operating outcomes rather than social process of performance. Thus, he reaffirmed the trust-centred perspective in enhancing corporate performance in IJVs.

The trust-performance relationship in Chinese IJVs has limited research in the literature. In the article "The effect of trust on international joint venture performance in China", Ng et al. (2007) re-examined the role of trust between parent companies and it is suggested that trust not only influences performance but also moderates the relationship between performance and contextual elements, such as cultural difference, local reliance and senior executive experience. The moderating effects of trust on the relationships between local reliance, experience of executives and performance were confirmed for the senior executive sample, but the moderating effect of cultural distance was not consistent between the company-level and country-level measures. Wong et al. (2003) examined the roles of those strategies – localisation, communication, and control

– and their combinations in building the trust of local senior managers in IJVs. The results revealed that the joint use of localization and communication represents a positive strategic combination for trust development. However, a localization strategy coupled with intense control inhibits trust building.

In line with the literature, the author hypothesizes that a higher level of trust between IJV parents will lead to better IJV performance. The five hypotheses are (Zheng, 2011):

Hypothesis 1: The level of trust between IJV parents is positively related to IJV performance.

Hypothesis 2: Employees who show individualism in living are more inclined to accept different cultures and values. These employees tend to show more trust in foreign co-workers than peers in drab living styles.

Hypothesis 3: When holding the same jobs, distributive inequality in salary results in distrust between employees from different partners.

Hypothesis 4: Because of language similarity and communication style, employees with the same nationality understand each other more thoroughly and therefore are enhancing trust between each other in an IJV.

Hypothesis 5: Younger employees tend to hold trust in foreign workers more than the elder employees.

Figure 3 illustrates the trust model:

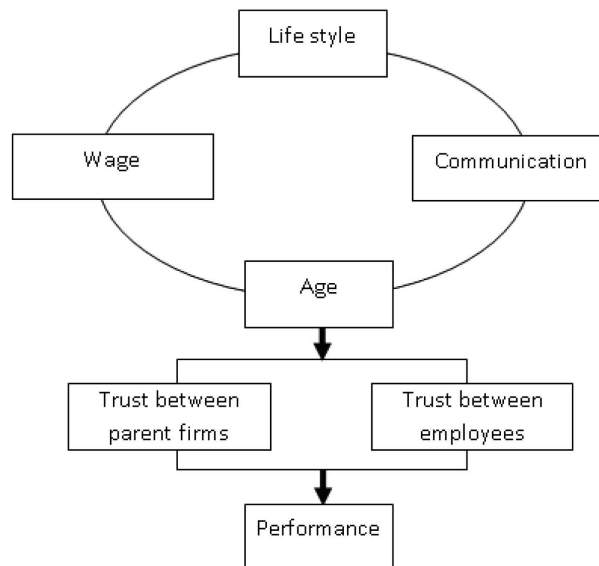


Figure 3. Relationship between trust and IJV performance (Publication IV)

In Figure 3, wage, life-style, communication and age are tested for their influence on the trust level between the Chinese and foreign people in the IJV. The relationship between trust level and IJV performance is also tested in this study.

The role of trust on relational performance (which is also related to the overall IJV performance) was also validated recently though an empirical study shown in Wang et al. (2019). In the study, 162 local suppliers-international buyer dyads were used to test the impact of physical asset specificity (PAS) and human asset specificity (HAS) on relationship performance. Many of the local suppliers are IJVs. PAS and HAS are moderated by both contract specificity and trust. Six hypotheses were developed to test the relationship performance and they are described as follows.

Hypothesis 1. There is an inverted U-shaped relationship between physical asset specificity and relationship performance.

Hypothesis 2. There is an inverted U-shaped relationship between human asset specificity and relationship performance.

Hypothesis 3a. The inverted U-shaped effect of physical asset specificity on relationship performance is stronger (deeper) when contract specificity is at a high level, and vice versa.

Hypothesis 3b. The inverted U-shaped effect of human asset specificity on relationship performance is stronger (deeper) when contract specificity is at a high level, and vice versa.

Hypothesis 4a. The inverted U-shaped effect of physical asset specificity on relationship performance is stronger (steeper) when the trust level is high.

Hypothesis 4b. The inverted U-shaped effect of human asset specificity on relationship performance is stronger (steeper) when the trust level is high.

The conceptual model is presented in Figure 4.

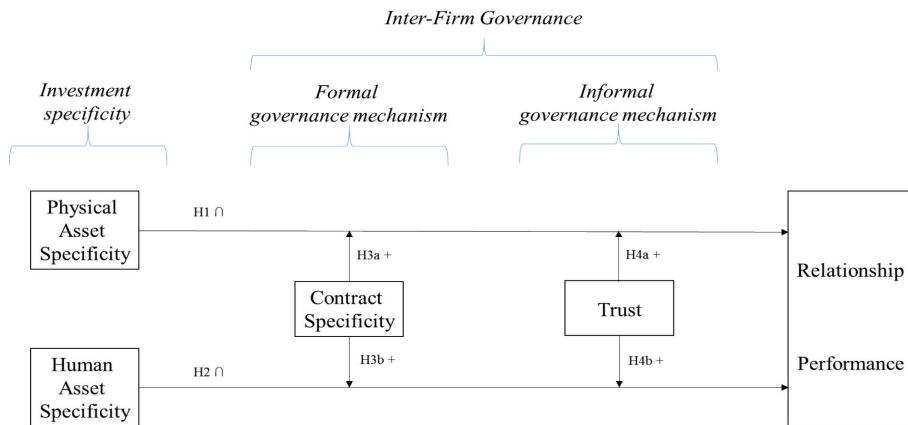


Figure 4. The conceptual model to test impact of PAS and HAS on relationship performance (Publication I)

In Figure 4 contract specificity represents the formal governance mechanism while trust represents the informal governance mechanism. Therefore, contract specificity is a “hard factor” and trust is a “soft factor” in determining performance. The two broad propositions are that first both PAS and HAS affect relationship performance. Second, both contract specificity and trust moderate PAS and HAS for their effect on relationship performance.

2.4.4 Location selection and IJV performance

Location selection is important in IJVs, which has a significant influence on company performance (Zheng, 2014). Trust and location together could generate a synergy effect on IJV performance. For example, Ertug et al. (2013) argue that an IJV partner’s perceived trustworthiness is influenced by the general propensity to trust in the trustor’s home country as well as the home country of the other IJV partner. This shows that trust and location (country level) are interconnected in terms of the influence of location on trust. In addition, Hwang & Kim (2018) found that inter-partner trust could influence an IJV’s relocation selection (country level). Moreover, given China’s huge size, it is also important to consider the IJV location selection within China. In fact, there are more than 3000 cities in China and each and every city has its unique subculture and other different institutional situations. Therefore, it is also important to consider all regional institutional factors for IJV location selection. Trust and location are thus intertwined to significantly influence IJV performance.

In literature, location can determine the success or failure of the investment (e.g. Korbin, 1976; Bagchi-Sen & Wheeler, 1989; McNaughton, 1998; Tatoglu & Glaister, 1998; Qian et al., 2002). Ramasamy & Viana (1995) pointed out two primary reasons for foreign investment inflows. First, China has the advantage of cheaper labour cost and raw material cost compared to other Asian countries. Secondly, the market in China is full of potential. Therefore, China is generally attracting FDI inflows.

In this research, the case study research method is used to study IJV location selection in China. First, the current situation in China is presented, followed by a discussion of various factors that influence IJV location selection. A detailed IJV case study is then conducted to find out the significant influential factors for IJVs.

IJVs vary in different regions, leading to the issue of which factors affect foreign firms when selecting the location. This study emphasizes the investigation of influencing factors of foreign firms in choosing a location in order to formulate corresponding policies. Based on domestic and foreign empirical research, this study summarizes the influencing factors of IJV as (1) market factor; (2) infrastructure factor; (3) labour factor; (4) agglomeration effect factor and (5) policy and culture factor (Zheng, 2014).

3 Research methodology

3.1 Study design

In this study mixed methods research will be used. Mixed methods research represents research that involves collecting, analysing, and interpreting quantitative and qualitative data in a single study or in a series of studies that investigate the same underlying phenomenon (Leech & Onwuegbuzie, 2008). Both quantitative and qualitative methods are used in this study. Quantitative methods include questionnaire surveys. Qualitative methods include literature review and content analysis. The research philosophy in this study is mainly critical rationalism, which is also reflected by the mixed methods research. The research design is demonstrated in Figure 5.

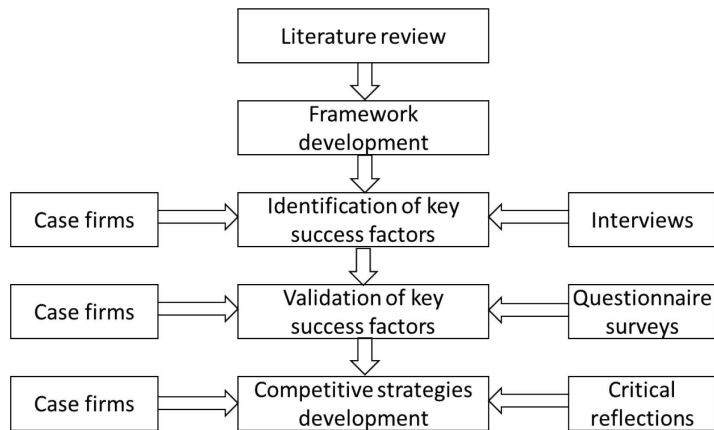


Figure 5. The research design (compiled by the author)

In this study, a literature review is first conducted to get a number of IJV key success factors based on the literature. Then interviews for Sino-Foreign IJVs are conducted to find out the relevant key success factors for IJVs operating in China. After this stage, the role of the selected key success factors is further validated by questionnaire surveys and a further detailed analysis. Indicative competitive strategies for responsible and sustainable IJV development are also discussed. Critical personal reflections also help develop competitive strategies. In the study, subjective measures for IJV performance are focused in order to investigate the relational dynamics in IJVs. Therefore, qualitative studies are extremely helpful in identifying the factors neglected in quantitative studies.

In this study, the interview and survey results are used for the research purpose only with the permission from the interviewees and the relevant companies. For the Sino-Finnish IJVs the company names have been kept anonymous as previously agreed with the companies concerned. All good research ethical practices have been followed in the whole study.

3.2 Data and methods of analysis

3.2.1 Data collection for identifying key IJV success factors

For the identification of the key IJV success factors and performance measurement, the case study method is used. The cases are selected from a more extensive study focusing on the IJV behaviour, strategies and performance of Finnish companies made in late 2006 and early 2007. In three IJVs, there were two Chinese partners whereas the rest had only one Chinese partner. Two of the cases had the first manufacturing FDIs by the Finnish company and five of the cases had first the IJVs by the companies. The Finnish equity share is between 10%-90%, thus fulfilling the traditional JV requirement for share. Some researchers regard only 50-50% ventures as the real IJVs. There was only one IJV of this kind among the nine cases and in general, the 50-50% IJVs seem to be very rare among IJVs by Finnish firms (Larimo, 2007). From the other eight IJVs three were originally minority and five majority owned by the Finnish partners. The motives for establishing the IJVs were to increase profits and the market share as well as to lower production and sourcing costs. Except for one case, the IJVs were clearly established to last for a longer time period, in several cases at least ten years.

A semi-structured interview was conducted for each IJV operating in China. The interviewee in each IJV was a top foreign manager (president, vice president, CEO, chairman). Each interview lasted for 40-60 minutes covering all the structured questions on factors/determinants at IJV formation and operation stages and the overall IJV performance at the five dimensions (financial performance, market position, sales level, market share, overall satisfaction). In addition, the interviewees were encouraged to talk freely on all IJV issues and problems. The interview results were analysed using the normal content analysis method.

3.2.2 Data collection for the trust factor

Next, because two "shared" IJV key success factors were identified as important factors, they are further investigated and validated: *trust level* and *IJV location selection*. Trust is a key success factor, which represents an important relational dynamic among IJV partners. A specific IJV location is surrounded by many local environmental factors which are critical for IJV success. Therefore, by studying these two "shared" key success factors it is possible to have a better understanding of the most influential factors for IJV success as well as to create indicative competitive strategies for further IJV development.

To validate the trust factor, two studies were conducted. The first two case companies were chosen to validate the trust factor. Zheng (2011) studied the impact of trust on IJV performance through a study of two IJVs. The first company interviewed is the world's largest soft drink company – Coca-Cola. The second company Astra Zeneca Ltd. is a cutting-edge biological medicine company, which is driven by innovation. These two companies are considered as IJVs in China and the foreign parent companies are from the USA and UK respectively. They represent a broad range of cultural distance from China, which facilitates the comparison of the implications of communication styles on IJV trust. To control the industry effects and company size, only IJVs with more than 200 employees were included. Furthermore, only IJVs with three or more years of operational history in China were sampled to achieve a more valid assessment of inter-partner relationship and company performance. These two firms have both been operating in China for more than ten years and already occupied mature management skills and marketing strategies.

In this research, two sets of responses were received from the sample IJVs: one from the senior managers of the parent companies and the other from the employees of IJVs. The responses from senior managers can be further divided into the responses of the Chinese managers and the senior managers from foreign parent companies. This approach not only reduces the common method variance that is caused by a single source bias, but also provides more information with which to triangulate the findings. The parent sample also helps in the development of a more comprehensive understanding of the effect of trust on company performance from the point of view of different constituencies. Both of the two sets of data were collected through face-to-face questionnaire surveys that were conducted in person in one day. The respondents were selected randomly from the companies' personnel name lists. In total 35 respondents were surveyed, and 31 valid responses were collected. Of these responses, 4 were senior managers from the Coca-Cola Chinese parent company, 3 from the Coca-Cola foreign parent company's senior managers. In responses from Astra Zeneca Ltd., 16 were from local employees, 3 from foreign employees, 3 from local parent company's managers and 2 from foreign parent company's senior managers. When the respondent from the Chinese parent company was also the senior executive of the IJV, the corresponding parent response was deemed invalid. The questionnaires for employees were designed to test the life-style, wage distribution, communication style, age and trust relationships.

Due to time and resource restrictions, the data from the questionnaire survey are relatively limited, which may result in variations in results. To mitigate the negative influence, it was ensured that all questions in every survey were answered and the respondents' attitudes were positive. First, through channels like the official website and employees within the companies, the author got a general idea of the main corporate products, organizational structure, corporate culture, etc. After that, the questionnaires were distributed and respondents were friendly informed of the utilization of the survey results to reduce their concerns. Finally, a short telephone interview was performed with the general manager to recheck the validity and reliability of the information.

The Likert 5-item scale was used to capture the relationships between IJV variables. The respondents gave their answers according to their perceptions of the degree. Detailed items were tested concerning the following dimensions: trust level between parent companies, life style, compensation distribution, communication skills, age, IJV performance. These detailed items can be found in Zheng (2011).

Second, the role of trust on IJV performance was also indirectly validated recently though an empirical study shown in Wang et al. (2019). In the study, two structured questionnaires were developed in the English language, then translated into Chinese, and then translated back into English to allow readjusting of some wordings. Before the survey a pre-test of the Chinese questionnaires was conducted in 100 local firms and 86 valid replies were received. Then the corrected item-total correlation (ITC) analysis and the alpha reliability coefficient analysis were performed and six items in the questionnaire with values lower than 0.7 were deleted. As a result, 24 items were left in the formal questionnaire. Next, 860 offshore local suppliers were identified as the population for the survey and these suppliers were compiled from three major sources including the Economic Commerce Committee, the Ministry of Commerce website, and the Information Bank. Among them, 632 suppliers were finally chosen based on two criteria: the supplier should be from the manufacturing sector and it should have at least one buyer from a developed country among its five top international buyers. An experienced consulting firm conducted the formal survey. Finally, 229 replies from

the local suppliers and 162 replies from the international buyers were usable. Therefore, the final dataset was 162 supplier-buyer dyads. Thirty companies were chosen from the non-response firms to check for a non-response bias and it was found that there was no significant difference for those replied and those who did not reply. Thus, there is no non-response bias. So, finally 162 local suppliers-international buyer dyads were used in the study to test the impact of physical asset specificity (PAS) and human asset specificity (HAS) on relationship performance. Many of the local suppliers are IJVs. PAS and HAS are moderated by both contract specificity and trust. Six hypotheses were developed to test the relationship performance.

3.2.3 Data collection for the location factor

A case study was done to study the location factor. This study emphasizes on investigation of the influencing factors of foreign companies in choosing their location in order to formulate corresponding policies. For the case study, a semi-structured interview was conducted and the interviewee was the CEO of the IJV who was from the foreign parent company. The interview was performed face to face in the CEO's office and it lasted for about one hour. At first, the question was on consideration of location selection of the IJV. Then the interviewee was encouraged to talk freely on all IJV issues in order to capture his thoughts and opinions from different angles and perspectives. Because the location selection issue is an important consideration for a foreign parent company, only the foreign manager was interviewed for this purpose.

In this study, Ford Motors is the foreign parent company, which is an American MNC, and the world's third largest automaker based on the worldwide vehicle sales. In 1995, Ford invested in Jiangling Motors Corporation located in Nanchang, the capital city of Jiangxi Province, to form an IJV. Ford Motors held 30% of the shares in the IJV, which mainly manufactures vehicles and trucks. In the first half year of 2009, Jiangling Motors generated a net profit of RMB 256 million and had a great performance. The IJV continued its success in the next few years. Based on domestic and foreign empirical research, this study summarizes the influencing factors of FDI/IJV as (1) market factor; (2) infrastructure factor; (3) labour factor; (4) agglomeration effect factor and (5) policy and culture factor (Zheng, 2014). The case study is based on this framework to analyse data.

4 Results and discussion

4.1 Results and discussion of key IJV success factors

In this study, the author focuses on studying the success factors associated with the IJV formation and IJV operation stages. The results on these factors from case studies are presented in Table 4 and Table 5.

Table 4. Results of key success factors at IJV formation stage (Publication II)

	CASES								
	A	B	C	D	E	F	G	H	I
Size of the Finnish firm at the time of entry (Meur)	240	2,314	25	3	237	99	2357	2478	20
Field of industry	Industrial product	Industrial product	Industrial product	Industrial product	Industrial product	Industrial product	Industrial product	Industrial product	Industrial product
FDI experience	3	92	1	1	3	5	65	67	2
IJV experience	1	10 or more	none	none	none	none	5-9	2-4	none
Timing of entry	2001	1999	1995	1994	2003	1999	2003	2005	2002
Establishment mode	Greenfield	Greenfield	Greenfield	Greenfield	Acquisition	Greenfield	Acquisition	Greenfield	Greenfield
Earlier TC experience	none	exporting	other operations	no prior activity	a wholly-owned manufacturing unit	exporting	licensing agreement	Licensing agreement, exporting, wholly-owned manufacturing unit, manufacturing JV, other operations	exporting, sales subsidiary
Earlier partner experience	competitor	no prior relationship	no prior relationship	no prior relationship	no prior relationship	a licensing partner	competitor	competitor	no prior relationship
Partner size symmetry	company bigger 11-49% than partner	company at least 50% bigger than partner	partners same sized (+/- 10%)	company at least 50% smaller than partner	company at least 50% bigger than partner	company at least 50% bigger than partner	company at least 50% smaller than partner	company at least 50% bigger than partner	n.a.
Main motivation	Earn profit, Increase market share, Economies of scale	Earn profit, Increase market share, Achieve rapid market entry, Access to local distribution channel	Earn profit, Develop base for low cost sourcing,	Increase market share	Earn profit, Access to local marketing experience, Achieve economies of scale, Achieve rapid market entry, Access to local distribution channel	Earn profit, Increase market share, Establish a base to access other countries	Earn profit, Increase market share	Earn profit, Increase market share, Develop base for low cost sourcing, Achieve Quanxi-relations	Lower production costs
Sales orientation of the IJV at the entry stage	75-100% of the total sales directed to the target country	75-100% of the total sales directed to the target country	0-4% of the total sales directed to the target country	75-100% of the total sales directed to the target country	75-100% of the total sales directed to the target country	0-4% of the total sales directed to the target country	5-24% of the total sales directed to the target country	75-100% of the total sales directed to the target country	100% of the total sales directed to the target country
Finnish share of ownership at entry	51%	49%	25%	25%	85%	60%	55%	50%	55%
Intended duration of the IJV	indefinite	more than 10 years	more than 10 years	more than 10 years	2-5 years	more than 10 years	more than 10 years	indefinite	5-10 years

The nine IJV firms are numbered alphabetically from A to I. The left column contains a few important factors at the IJV formation stage such as the size of the Finnish company (in terms of value of assets), FDI and IJV experiences, the year of investment and type of investment, earlier trading company and partner experiences, partner size symmetry, the main motivation and sales orientation at the entry stage, the percentage share of Finnish ownership at entry, and the intended duration of the IJV.

In Table 5 the results of the key success factors at the IJV operation stage are summarized. These success factors represent important factors associated with IJV performance in actual daily operations. These factors have been studied widely in the literature. Therefore, the author also emphasizes these factors in this study. The control

factor is divided into strategic control and operational control. Other important factors include commitment, trust, conflicts, sales orientation at the operation stage, and total sales.

Table 5. Results of key success factors at IJV operation stage (Publication II)

	CASES								
	A	B	C	D	E	F	G	H	I
Level of strategic control	High control over major decisions of the JV	Relatively high control over major decisions of the JV	High control over major decisions of the JV	High control over major decisions of the JV	High control over major decisions of the JV	Relatively high control over major decisions of the JV	Relatively high control over major decisions of the JV	Medium level of control over major decisions of the JV	High control over major decisions of the JV
Level of operational control	Relatively low control over daily activities of the JV	Relatively low control over daily activities of the JV	High control over daily activities of the JV	Medium level of control over daily activities of the JV	High control over daily activities of the JV	Medium level of control over daily activities of the JV	Relatively low control over daily activities of the JV	Relatively high control over daily activities of the JV	High control over daily activities of the JV
Partner commitment	Partners are relatively strongly committed to the JV operation	Partners have medium level of commitment to the JV operation	Partners have low commitment to the JV operation	Partners have medium level of commitment to the JV operation	Partners are relatively strongly committed to the JV operation	Partners have low commitment to the JV operation	Partners are relatively strongly committed to the JV operation	Partners are strongly committed to the JV operation	Partners are strongly committed to the JV operation
Level of trust	Medium level of trust	Medium level of trust	High level of trust	Relatively low level of trust	Relatively low level of trust	Low level of trust	Medium level of trust	Relatively high level of trust	High level of trust
Conflicts between partners	Medium level of conflicts between partners	Relatively high level of conflicts between partners	Relatively low level of conflicts between partners	Medium level of conflicts between partners	Low level of conflicts between partners	Low level of conflicts between partners	Medium level of conflicts between partners	Relatively low level of conflicts between partners	Low level of conflicts between partners
Sales orientation at operation stage	25-49% of the total sales directed to the target country	75-100% of the total sales directed to the target country	5-24% of the total sales directed to the target country	75-100% of the total sales directed to the target country	5-24% of the total sales directed to the target country	50-74% of the total sales directed to the target country	5-24% of the total sales directed to the target country	75-100% of the total sales directed to the target country	100% of the total sales directed to the target country
Total sales (Meur)	10-49	less than 10	less than 10	less than 10	10-49	less than 10	10-49	n.a.	n.a.

The results of IJV performance are presented in Table 6. The results from all nine case studies from company A to company I have been summarized. Table 6 contains subjective IJV performance measures, such as financial performance, market position, sales level, market share, and overall satisfaction. The results of these subjective measures represent a Finnish parent perspective, i.e. they were obtained from Finnish managers in the IJVs. In Table 7, a numerical ranking is presented by assigning different weights (on a 0-1-3-5 scale) to individual performance results. For example, in financial performance measure, high satisfaction is assigned a weight 5 and relatively high satisfaction is assigned with 3. Medium level of satisfaction is given a weight 1 and low level of satisfaction will be given 0. Other performance results are assigned weights in a similar way. By simply adding up all weights, we get the overall ranking for each case. In Table 7 case E has the highest rank 17. Cases B, D and G have the second rank with the number 15. Case F has the worst rank.

Table 6. Results of IJV performance (Publication II)

	CASES								
	A	B	C	D	E	F	G	H	I
Financial performance	Relatively high satisfaction	Relatively high satisfaction	Medium level of satisfaction	Relatively high satisfaction	Relatively high satisfaction	Relatively low satisfaction	Relatively high satisfaction	Medium level of satisfaction	Medium level of satisfaction
Market position	smaller than 5 of the biggest firms in the market	Market leader	smaller than 5 of the biggest firms in the market	smaller than 5 of the biggest firms in the market	Within 2-5 biggest firms	smaller than 5 of the biggest firms in the market	Market leader	Within 2-5 biggest firms	n.a.
Sales level	Relatively high satisfaction on level of sales	Relatively high satisfaction on level of sales	Medium level of satisfaction on level of sales	High level of satisfaction on level of sales	Relatively high satisfaction on level of sales	Medium level of satisfaction on level of sales	Relatively high satisfaction on level of sales	Relatively high satisfaction on level of sales	Medium level of satisfaction on level of sales
Market share	Medium level of satisfaction on market share	Medium level of satisfaction on market share	Medium level of satisfaction on market share	High level of satisfaction on market share	High level of satisfaction on market share	Medium level of satisfaction on market share	Relatively high satisfaction on market share	Medium level of satisfaction on market share	Medium level of satisfaction on market share
Overall satisfaction	Relatively high satisfaction	Relatively high satisfaction	Relatively high satisfaction	Medium level of satisfaction	Relatively high satisfaction	Medium level of satisfaction	Medium level of satisfaction	Medium level of satisfaction	Medium level of satisfaction

Table 7. Ranking of IJV performance (Publication II)

	CASES								
	A	B	C	D	E	F	G	H	I
Financial performance	3	3	1	3	3	0	3	1	1
Market position	1	5	1	1	3	1	5	3	n.a.
Sales level	3	3	1	5	3	1	3	3	1
Market share	1	1	1	5	5	1	3	1	1
Overall satisfaction	3	3	3	1	3	1	1	1	1
Overall ranking	11	15	7	15	17	4	15	9	n.a.

For the analysis of the results, we will start from the results at the IJV formation stage. In Table 4 we can see that the size of the foreign partners in IJVs varies considerably. IJVs B, G, and H (G and H were established by the same Finnish company) were established by larger Finnish MNCs while other Finnish companies are SMEs. The Finnish MNCs have relatively more FDI, IJV and TC experience than SMEs and they all have a long-term focus (the intended duration of the IJV). These MNCs are also significantly larger than their Chinese partners are. They are motivated to enter China and they have a higher ownership share than their Chinese partners (majority owned IJVs). As a result, in Table 6, both IJVs B and G were evaluated to have excellent financial performance and the two companies showed relatively high satisfaction. Company H showed a medium level of satisfaction. All of them had a leading market position partly due to its large size scale effect. All of them also showed a high level of satisfaction with the level of sales and market share. For overall satisfaction company B showed relatively high satisfaction while companies G and H showed a medium level of satisfaction. In Table 7, companies B and G have the same weight 15 while company H has the weight 9. They all showed relatively good performance. The author argues that all performance measures should be analysed and combined to give a more solid result. Therefore, by the combination of all the performance measures the author thinks FDI experience is an important factor in IJV performance. For the factor timing of entry, four companies had made the investment after the year 2000, i.e. companies A, E, G (H) and I. Among them companies A, E, G showed relatively high satisfaction on financial performance and companies H and I

showed a medium level of satisfaction. They also showed either relatively high satisfaction or medium level satisfaction on measures of sales, market share, and overall satisfaction. From this analysis it is clear that the timing of entry also affects IJV performance and early movers tend to outperform latecomers in a foreign market because their operations tend to be more stable and partners may know each other better after a few years leading to better performance. All other factors such as the establishment mode, the main motivation, etc. do not show a consistent result.

Factors at the IJV operation stage also affect performance. For partner commitment, companies C and F have low partner commitment and they have the worst ranks in Table 7 with an overall ranking of number 7 and 4 respectively. The sales and market share for both companies also showed a medium level of satisfaction. It can be concluded from the analysis that low partner commitment tends to lead to a low level of satisfaction in IJV performance. Companies A, B, D, E, G, H showed good performance in terms of overall ranking. Among them, companies D and E showed a relatively low level of trust between partners. Other four companies showed either medium-level or high-level trust levels between partners. However, companies D and E have medium-level and strong partner commitment respectively. Thus, it can be concluded that a high level of trust also contributes to positive IJV performance. In fact, partner commitment and trust as two important success factors are interconnected. A higher level of partner commitment will lead to a higher level of trust, and vice versa.

From the above case studies and analyses it can be found that FDI experience and the timing of entry are the key success factors at the IJV formation stage and partner commitment and trust level are the key success factors at the IJV operation stage. Other factors either did not affect IJV performance or did not show a consistent result.

Based on the literature review and the author's ongoing research an overview of success factors of IJV performance was presented and grouped into three main categories: IJV local environment, IJV formation stage, and IJV operation stage. A conceptual research framework for investigation of IJV success factors was presented. The empirical part of the study consists of nine Sino-Finnish IJV case studies. The results show that FDI experience and the timing of entry (the age of the IJV unit) are the key success factors at the IJV formation stage while partner commitment and trust level are the key success factors at the IJV operation stage. This implies that these factors are crucial to IJV success and should be paid special attention to in the formation of IJVs and in the operation process thereafter.

However, in this study the key success factors for IJV local environment are not examined due to a limited number of cases. In addition, there are many local environmental factors such as culture, economy, government policy, technology, infrastructure, labour, market potential, legal system, quality of life. In fact, all these local environmental factors are embedded in a specific physical location. Therefore, in order to study the impact of the local environment on IJV performance, a good idea is to simply examine the location influence on IJV performance. A different location selection brings in different local environmental factors, which will have a significant influence on IJV performance.

Therefore, in the next section, two "shared" IJV success factors will be validated in terms of their impacts on IJV performance: *trust level* among partners and *IJV location selection*. The validation is conducted through questionnaire surveys and case studies using IJVs operating in China.

4.2 Results and discussion of the trust factor

In this case study, the following steps figure out the data: first, the results are divided into three groups: local and foreign employees, salary above and below 6000 RMB per month, age between 25~30 and 31~40. The author chooses 6000 RMB because it is approximately the average salary level in these companies. The author divided the age groups based on the classification of young people and in China people under 30 years old are normally regarded as young people. The mathematic mean of each group is calculated respectively. The second step is to categorize the results based on related topics and compute the mathematic mean of each variable related question. The results are presented in Table 8.

Table 8. Results of trust level among employees and four variables (Publication IV)

Factors	Chinese employees	Foreign employees		Salary/month over 6000 yuan	Salary/month under 6000 yuan	Age	
						25~30	31~40
Trust level (high scores imply low trust level)	2.6727	2.75		3.075	3.1143	3.0909	3.25
Life style	Time Together (high Scores imply short time together)	2.2728	2.375	X		X	
	Value (high scores imply low value acceptance)	3.1364	2.625				
Communication skills (high scores imply ineffective communication skills)		3.0455	3.25	X		X	
Salary level	Salary satisfaction						
	Perception of fair and equality			2.125	2.2857		

Table 9. Trust level and performance satisfaction results (Publication IV)

Manager classification	Chinese managers	Foreign managers
Trust level (high score implies low trust level)	2.6286	1.5714
Performance satisfaction (high score implies low satisfaction)	2.875	1.0825

The data in Table 9 are calculated in two steps: first, the mathematic mean is calculated separately in each of the two groups, that is, the groups of local and foreign managers; secondly, the mean is categorized by trust level and performance satisfaction.

The study investigated the determinants of trust and trust-performance relationship in IJVs. The findings of this research provide empirical evidence to support the hypothesis that there is a relationship between performance and trust, and give support to the claim that there are certain factors contributing to trust building in IJVs. The conclusions are summarized in the following:

- *The influence of life-style on trust*
Chinese employees tend to show more trust in Chinese colleagues rather than in foreign colleagues.
- *The influence of compensation on trust*
Employees with high salaries are inclined to trust low-paid employees. There exists no direct relationship between wage satisfaction and trust.
- *The influence of communication skills on trust*
The better the communication skills, the higher the trust level is.
- *The influence of age on trust*
Young employees are inclined to trust co-workers from different nationalities more than elders.
- *Relationship between trust and performance*
Trust will improve performance. Likewise, partners who possess high performance satisfaction is more inclined to trust each other.

The above conclusions are compatible with the hypotheses in terms of life-style, interpersonal communication, age and trust-performance relationship. In the compensation variable, though the data are in accordance with equity theory, the data reveal that the wage level rather than wage satisfaction poses influence on trust.

The findings provide important implications for foreign investors hoping to build trust among local senior managers in China. In terms of theoretical implications, several suggestions are proposed to increase trust levels and enhance performance. First, the comparison of life-styles suggests that various activities should be encouraged. Those activities should increase contacts between foreign and local employees and are therefore fostering pluralistic life styles in local employees. The second implication is to increase the wages of low paid workers who perform well in jobs, hence enhancing the employees' feeling of equality in salaries and improving trust levels. The third implication is to set up employee consulting services for employees to express their inner feelings about the company. The next suggestion is to offer a platform for older workers to interact with young colleagues, thereby increasing their acceptance of new things.

In the second study, empirical study is used to validate the role of the trust factor. From the empirical research, it is found that hypotheses 1 and 3a are supported. Hypotheses 2, 3b, and 4a are not statistically supported. Hypothesis 4b is partially supported. The research results show that there is an inverted U-shaped relationship between PAS and relationship performance (see Figure 6) and a positively linear relationship between HAS and relationship performance (see Figure 6).

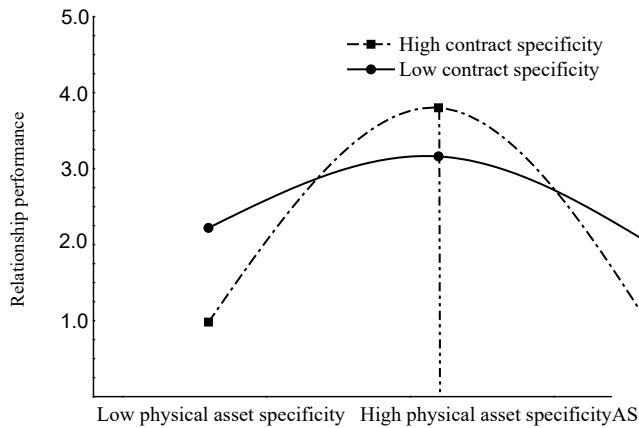


Figure 6. Moderating effect of contract specificity on the relationship between PAS and relationship performance (Publication I)

Figure 6 shows that when PAS is low, it exerts a stronger positive effect on relationship performance (steeper slope) at high levels of contract specificity. However, when PAS is high, relationship performance declines faster as PAS increases when contract specificity is high.

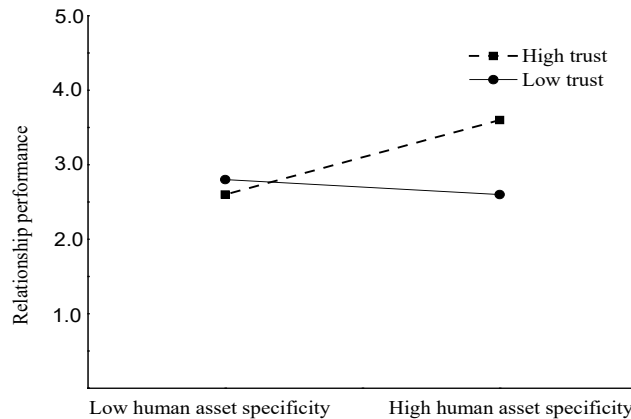


Figure 7. Moderating effect of trust on the relationship between HAS and relationship performance (Publication I)

Figure 7 reveals that the relationship between HAS and relationship performance becomes stronger when the level of trust between the local supplier and the international buyer is higher. A high level of trust will improve relationship performance between partners. Therefore, trust as a “soft factor”, or an informal control/governance mechanism, plays a significant role in relationship performance and other types of financial and nonfinancial performance.

4.3 Results and discussion of the location factor

Table 10 explains the main factors when Ford Motor chose Jiangling to invest in, based on the previous framework of analysing the influencing factors of FDI/IJV location selection.

Table 10. Analysis of factors for Ford's investment in Jiangling Motors (Publication III)

Influencing factors	Attractive conditions
Market factor	<ul style="list-style-type: none"> • Increasing demand for trucks and vehicles
Infrastructure factor	<ul style="list-style-type: none"> • Convenient transportation (water -land-air transportation network) • Favorable infrastructures (water supply etc.)
Labor factor	<ul style="list-style-type: none"> • Low cost of labour force
Agglomeration effect factor	<ul style="list-style-type: none"> • Complete infrastructures and industrial matching facilities
Policy & Culture	<ul style="list-style-type: none"> • Preferential policies for foreign capital

Among the five major factors, the complete infrastructures and low labour cost play dominant roles for Ford in selecting Jiangling Motors in Nanchang as the IJV partner. The convenient railway transport system in Jiangxi allows quick turnover of raw materials for efficient and low-cost production. Moreover, abundant water and electricity supply ensure efficient manufacturing. The local preferential policies and business environment are also a big plus for FDI/IJVs. Revenue is raised by low labour cost and the rising demand for vehicles and trucks. In conclusion, convenient transportation, complete infrastructures, low labour cost, and preferential policies for FDI/IJV all attracted Ford to invest in Jiangling Motors in Nanchang, Jiangxi Province.

Through a comprehensive literature review and the detailed case study, the key success factors are identified and summarized and they are the following: market, infrastructure, labour force, agglomeration effect, and policy and culture. In addition, it is found that the regional GDP is positively related to the FDI inflow. On the contrary, labour cost is negatively associated with FDI especially in the eastern region of China. In the middle of China, transportation infrastructure and the regional GDP are linked positively to the FDI attracted. In the western part of China, the inflow of FDI is positively correlated to the size of local investment population and preferential policies and is negatively related to the labour cost.

Therefore, in the selection of IJV location, these environmental factors all play a positive role in the IJV performance. In the selection of IJV location, depending on the nature of the business, the IJV should pay attention to some of the most significant environmental factors. For example, for a high-tech firm, preferential policies and the labour factor may be important in location selection. Many of the FDI/IJVs in China are gathered around the eastern and southern regions of China because of the favourable environment. This phenomenon is referred as agglomeration. For manufacturing companies, the agglomeration may lead to damage of environmental efficiency. In a study, the impact of manufacturing agglomeration on environmental efficiency is investigated through a sample of 283 prefecture level cities in 30 provinces, autonomous regions and municipalities in China from 2003-2012 using the panel threshold methodology (Ji et al., 2019). It is found that a manufacturing agglomeration exerts

asymmetric effect on environmental efficiency. It also results in a decline in environmental efficiency when the intensity of science and technology expenditure as well as human capital stock is below a certain critical value. Therefore, there is an important policy implication for the Chinese government. Improving the intensity of science and technology as well as promoting human capital accumulation are crosscuts for local governments to avoid the pollution effect of agglomeration. In other words, high-tech IJVs should be encouraged. R&D and talents should be a priority in IJV development in China. This is definitely one significant requirement to enable a responsible and sustainable business in China.

4.4 Implications for theory and practice

IJVs operating in China should pay more attention to those “shared” key success factors because these “shared” factors are the dominant ones which can be found in almost all successful IJVs. Yet, based on institutional and contingency theories, IJVs may have different success factors. However, in the Chinese context, there are “shared” key success factors outstanding, such as the trust factor. In China the meaning of trust could be different than that in western countries because perceived trustworthiness can be influenced by the general propensity to trust in the home countries of both partners. For example, in China, individual and social meanings of trust are all important but the individual meaning is more important because of China’s guanxi-based cultural society and Chinese tradition of friendship. Therefore, foreigners should not be confused with the different meanings of trust. As Nippa & Reuer (2019) pointed out, the context-based discussion of IJV theories and consequences is already a research gap. An incorporation of the existing and new stakeholders in the IJV research is also a contribution to the topic area. In this research, the trust factor is also examined widely to include managers and basic employees, Chinese and foreigners, so trust could be examined from a large context to better understand its meaning and effect. Chinese managers often show lower satisfaction and trust level than foreign managers. Thus, many theoretical key terms, such as trust, should be defined clearly and compared properly for different target groups. Without a clear definition many theories and terms could be vague in real life application. The recent Chinese regulatory shifts to encourage knowledge sharing and learning among IJVs also has implications for IJVs to build a knowledge-based company for mutual benefits.

Based on the trust research in this study, there is no direct relationship between wage satisfaction and trust. Trust will improve IJV performance. Likewise, partners who possess high performance satisfaction are more inclined to trust each other. This implies that the salary level is not the most important factor to increase personal satisfaction and trust among people. Rather, other issues such as communication, corporate culture, nonmonetary incentives could play a bigger role in enhancing the level of trust among people. There are also some differences between Sino-Finnish IJVs and Sino-Anglo-Saxon IJVs. Interviews and surveys clearly reveal that Sino-Finnish IJVs consider trust more important than Sino-Anglo-Saxon IJVs. This is consistent with the view that Sino-Finnish IJVs think long-term performance is more important than short-term performance. Subjective measures are also more valued by Sino-Finnish IJVs than Sino-Anglo-Saxon IJVs. One explanation is that Finnish culture is quite different from Anglo-Saxon culture. Finnish culture is in between Eastern and Western cultures. In this study, it is also found that human asset specificity has a linear positive relation with relationship performance of cooperating partners. However, physical asset specificity has an inverted U type

relation with relationship performance of cooperating partners. Therefore, human asset specificity should be more valued in practice. It implies that “soft factors”, such as trust, should be more emphasized in practice.

However, “hard factors”, such as location selection could also be critical for some IJVs. For example, it is not a bad idea for a Finnish paper-making company to set up an IJV in Southern China because the location is close to the forest and forest firms in the country. China is such a big country and every region has its unique subculture and regional resources and government policies are quite different. Natural-resource-based IJVs should probably count more on natural resources and local government policies in location selection. In addition to the local natural resources and government policies it is also necessary to pay attention to other resources and policies. For high tech IJVs, it is important to select a region/city which has a few good universities in order to have access to a large talent pool. For example, in China talented IT engineers basically gather together in big cities and many do not want to move to small cities to work even if they are paid more. Chinese cities in the eastern and southern regions are much more developed than those in the western and northern regions. The level of business ethics could also vary in different cities. Therefore, in IJV location selection in China, in addition to the nature of business, all other economic, political, cultural, technological factors should be taken into account.

In this study, trust and location are identified and combined to study their relationship with IJV performance. The integrative approach often generates positive synergies. In fact, trust and location as two “shared” key success factors are intertwined and they influence each other. Therefore, it is better to combine them to study their effect on IJV performance. The practical implication is that for IJVs in China, trust and location should be considered as the key success factors and they deserve more attention. China is now building a knowledge-based society to transform “made in China” to “innovated in China”. Therefore, high tech IJVs will receive more preferential policies such as tax benefits and even government funding for supporting R&D. Talent management is thus important for these high tech IJVs. It is important to know that in this study strategy and policy implications are illustrative rather than conclusive. It is also important to realize the difference between IJVs having different western parent companies. For example, Finnish parent companies are often long-term oriented and trust is more valued by Finnish parent firms than parent companies from big western countries. Therefore, it would be reasonable to distinguish IJVs in China. Different strategies and policies can be adopted for IJVs which have different foreign home countries (e.g. Sino-Finnish vs. Sino-American IJVs). This study mainly contributes to the IJV literature in the context and relevance directions of research gaps in the IJV topic area.

5 Discussions and conclusions

IJV has been one of the main foreign market entry modes in the last few decades and this is particularly true for gaining market entry to China. However, early studies have indicated that IJVs have not reached the goals set for them or they have clearly failed in many situations. Recently there has been a growing interest to examine the key success factors and performance measurement for IJVs in China with foreign parent firms from developed countries. Although there is abundant literature on IJV already, there are still many research gaps in the topic area. For example, the context and relevance of IJV theories and terms and their applications are often ignored as pointed out by Nippa & Reuer (2019). This study contributes to the IJV literature in the context and relevance directions of research gaps.

In this study key success factors, performance measurement and indicative competitive strategies are linked to give a comprehensive understanding of IJV success in China. Identification of key success factors is always dependent on performance measures. Key success factors can result in strategy and policy implications. Therefore, it is natural to link these issues in this study. Mixed research methods are used in this study. First, a comprehensive literature review is given to identify key success factors for IJVs. Then a conceptual research framework is developed to help do case studies on nine Sino-Finnish IJVs to identify the most important success factors called “shared” key success factors. Based on the literature review and case studies, two identified important “shared” key success factors, trust and location selection, are further studied and validated through questionnaire surveys. Indicative competitive strategies for further IJV development are also proposed.

This study makes the following contributions to the existing IJV literature. First, in this study a comprehensive research framework for examining influential factors for IJVs in China is established by the author taking into account the unique economic, cultural and political factors in China. “Shared” key success factors are identified together with IJV performance measurement and development of competitive strategies. The study specifically contributes to the IJV research in the Chinese environment.

Second, as a few leading scholars argue (e.g. Madhok, 2006; Nippa & Beechler, 2013; Nippa & Reuer, 2019), the current research trend also calls for a shift of focus from separate factors, such as ownership to relational dynamics in IJVs. One of the relational dynamics is inter-partner relations and performance (Madhok, 2006; Khalid & Ali, 2017; Bamel et al., 2019; Wang et al., 2019). In this research trust between partners is identified as a “shared” key relational dynamic which will significantly influence IJV performance. This is demonstrated in an empirical study. Trust as a “shared” key success factor can be called a “soft factor” as opposed to many “hard factors” identified in previous research. Trust is an especially important “soft factor” in IJV studies in China because of the prevailing Chinese Guanxi (connection). The “soft factors” should be emphasized in the current IJV 2.0 phase to enable a win-win-win situation between IJV parent companies and the local government. They can also explain IJV success from an informal control mechanism perspective.

Third, for “hard factors”, location selection is considered important for a successful operation in China (Zheng, 2014). Other “hard factors”, such as asset specificity, are also examined for their impact on relationship between Chinese and foreign partners. Given China’s large territory, diverse subcultures, and the world’s largest population, it is important to include key “hard factors” in the research. Based on the literature and given

China's unique environment, the influence of location selection on IJV performance is investigated in this study through a detailed case study. The influence of asset specificity on relationship performance (which also influences operational performance) between Chinese and foreign partners is also researched through an empirical study. These key "hard factors" can explain IJV success from a formal control mechanism perspective.

Fourth, based on the identified "shared" key success factors and suitable IJV performance measurement approaches, the author proposes indicative competitive strategies for the responsible and sustainable development of IJVs in China. In the IJV literature little research has ever touched upon the development of competitive strategies after the examination of various IJV issues. The author believes that competitive strategies for responsible and sustainable development are one of the fundamental objectives for investigating IJV issues. This is particularly important for developing countries, such as China which is in a turbulent transition period and requires more careful attention for its future direction and development. Although these indicative competitive strategies are not conclusive, they still provide values to policymakers.

Fifth, in contrast to the IJV research between China and big western countries, this study has also chosen Sino-Finnish IJVs for research, which provides a supplementary view towards IJV success factors in China because the previous research is very limited in this direction. However, both the number and volume of Finnish IJVs in China are increasing in recent years, thus, additional research also contributes to the topic area.

As mentioned, the main research question in this study is: *"What are the "shared" key success factors and their influence on IJV performance and the corresponding indicative competitive strategies to enable responsible and sustainable development of IJVs in contemporary China?"*

The three sub-questions are then developed in order to answer the main research question and they are (1) *What are the "shared" key success factors with regard to IJV performance in China?* (2) *What are suitable approaches to measure IJV performance in China?* (3) *What are the corresponding indicative competitive strategies for responsible and sustainable development of IJVs in China?*

For the first sub-question, it is found that "trust" is the key success factor at the IJV operation stage. In this study, a future-oriented approach was taken to study "shared" key success factors so the trust factor at the IJV operation stage is investigated in detail. Another important factor "location" is also studied using a detailed case study. The location factor is a hard factor which is particularly important for IJVs operating in the Chinese context.

For the second sub-question, it is found that in IJV performance measurement cultural, economic, political and technological factors must be taken into account. These are macro level factors rooted in the local parent country that will affect IJV performance. The research framework should include the most significant IJV performance measures at the IJV formation stage and the IJV operation stage which should be treated differently. Both financial and non-financial measures should be included in the framework and a focus should be laid on non-financial measures. Subjective measures are also preferred in this study because in China it takes time to show performance results due to its unique business environment and subjective measures often give a better indication of future success or unsuccess. In this study performance measures include financial performance (ROI), ownership stability, market position, sales and market share, and overall satisfaction. The first one is a financial measure and the other four are non-financial ones. Overall satisfaction is an important measure which should be emphasized.

Trust is a very important “soft factor” for IJV success. In the case study has revealed by using the questionnaire survey method that trust has a positive influence on IJV performance. Likewise, partners who possess high performance satisfaction are more inclined to trust each other. It is also found that Chinese employees tend to show more trust in Chinese colleagues rather than in foreign colleagues. Employees with high salaries are inclined to trust low-paid employees. There exists no direct relationship between wage satisfaction and trust. The better the communication skills, the higher the trust level is. Young employees are more inclined to trust co-workers from different nationalities than elders. These findings provide important implications. For example, in China, the individual and social meanings of trust are all important but the individual meaning is more important because of China’s guanxi-based cultural society and Chinese tradition of friendship. Therefore, foreigners should not be confused with the different meanings of trust. It also implies that the salary level is not the most important factor to increase personal satisfaction and trust among people. Rather, other issues such as communication, corporate culture, nonpecuniary incentives, could play a bigger role in enhancing the level of trust among people. There is also some difference between Sino-Finnish IJVs and Sino-American and Sino-British IJVs. Clearly, Finnish managers consider trust more important than American and British managers. It is consistent with the view that Finnish managers think that long-term performance is more valued than short-term performance. In this study, it is also found that human asset specificity has a linear positive relation with relationship performance of cooperating partners. However, physical asset specificity has an inverted U type relation with relationship performance of cooperating partners. Therefore, human asset specificity should be more valued in practice. It implies that “soft factors” such as trust should be more emphasized in practice.

Location is another important factor for IJV success. Location is surrounded by many environmental factors, such as *market, infrastructure, labour factor, agglomeration effect, policy and culture*. These environmental factors represent many factors at the IJV local environment stage. For a particular IJV, these environmental factors must be carefully taken into account. For example, for a high-tech IJV, the labour factor (talent factor) may be a very important success factor.

For the third sub-question, the Chinese government now has a regulatory shift to encourage knowledge sharing and learning in IJVs as part of OBOR initiatives. Therefore, IJV strategies must reflect this trend. A few practical strategies should be developed to encourage high-tech IJVs. In other words, R&D and talents should be prioritised for government policy makers in creating strategies to promote responsible and sustainable IJVs in China. Within IJVs, a culture of trust should be built at all levels. Nonmonetary rewards could play a big role to increase the level of level and performance in IJVs in China.

There are some limitations to this study. First, the author managed to perform a few case studies and they may be not enough for more extensive generalisations. Secondly, there might be some trade-offs between the various factors or determinants of IJV performance. Therefore, future research may include more case studies to allow for a more extensive quantitative analysis of these factors on IJV performance. Special attention should be paid to the possible trade-offs between these factors. Third, better theoretical underpinnings can be used to explain and link the “shared” key success factors for IJV performance. Fourth, different IJV styles of control and levels of trust can be investigated in detail in future research as these are important yet complicated issues.

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Abstract

Identifying Shared Key Success Factors for International Joint Ventures in China

There are numerous IJVs in China but many have not reached the goals set for them or they have clearly failed. Recently there has been a growing interest in examining the key success factors and performance of IJVs in China with foreign parent companies from developed countries. Although there is abundant literature on IJV, research on identifying shared key success factors is very limited. This study contributes to the IJV literature in the context and relevance directions of research gaps.

The main research question in this study is *“What are the “shared” key success factors and their influence on IJV performance and the corresponding indicative competitive strategies to enable responsible and sustainable development of IJVs in contemporary China?”* Three sub-questions have been developed to conduct detailed research.

To answer the research questions, both qualitative and quantitative research methods have been used in this study. Qualitative methods include a literature review and personal interviews. Quantitative methods include questionnaire surveys. In this study a comprehensive research framework has been first established to identify the “shared” key success factors of IJVs in China, followed by detailed case studies and questionnaire surveys to validate the identified “shared” key success factors.

The research results reveal that “trust” is the key success factor, which was then surveyed through questionnaires. Another important factor, “location”, has also been discussed through a detailed case study. The soft factor “trust” and the hard factor “location” are particularly important for IJV success in the Chinese context. The findings provide important implications. For example, in China, the individual and social meanings of trust are all important but the individual meaning is more important because of China’s guanxi-based cultural society and Chinese tradition of friendship. Therefore, foreigners should not be confused with the different meanings of trust. It also implies that the salary level is not the most important factor in increasing personal satisfaction and trust among people. Rather, other issues, such as communication, corporate culture, nonmonetary incentives, could play a big role in enhancing the level of trust among people. This study also reveals that human asset specificity has a linear positive relation with relationship performance of cooperating partners. However, physical asset specificity has an inversed U type relation with relationship performance of cooperating partners. Therefore, human asset specificity, such as “trust”, should be more emphasized in practice. It is also important to realize the difference between IJVs having different western parent firms. Sino-Finnish IJVs often have long-term orientation while Sino-Anglo-Saxon IJVs have relatively short-term orientation. The perception of trust may also be different in these different IJVs. The “location” factor is important for IJVs in China as well. Given China’s huge size, in location selection IJVs should carefully consider local subculture, local natural resources, and local government policies etc. to make informed decisions.

The Chinese government now has a regulatory shift to encourage knowledge sharing and learning in IJVs as part of OBOR initiatives. Therefore, IJV strategies and policies should reflect this trend. A few practical strategies and policies should be developed to

encourage the development of high tech IJVs. For example, government policy makers should prioritise R&D and talent management for IJVs. Within IJVs, a good location or relocation should be considered and all levels of trust need to be improved for the responsible and sustainable development of IJVs in China.

Lühikokkuvõte

Peamiste jagatud edutegurite tuvastamine Hiinas toimivates rahvusvahelistes ühissettevõtetes

Hiinas on arvukalt rahvusvahelisi ühissettevõtteid, kuid paljud neist ei ole jõudnud püstitatud eesmärkide saavutamiseni või on selles selgelt ebaõnnestunud. Hiljuti on tekkinud üha kasvav huvi uurida selliste Hiina rahvusvaheliste ühissettevõtete peamisi edutegureid ja tulemusi, mille välismaised ematettevõtted asuvad arenguriikides. Kuigi ühissettevõtete teemal on palju publikatsioone, ei ole peamiste jagatud edutegurite tuvastamist eriti uuritud. Käesoleva doktoritöö panus kirjandusse seisneb selles, et ta aitab täita vastavas kontekstis ja oluliste suundade uurimustes olevaid lünki.

Käesoleva doktoritöö peamine uurimisküsimus on: *“Millised on peamised “jagatud” edutegurid ja nende mõju rahvusvaheliste ühissettevõtete majandustegevusele ning vastavad soovituslikud konkurentsistrateegiad, võimaldamaks rahvusvaheliste ühissettevõtete vastutustundlikku ja jätkusuutlikku arengut tänapäeva Hiinas?”*. Detailsema uuringu teostamiseks on püstitatud kolm alaküsimust.

Uurimisküsimustele vastamiseks on uuringus kasutatud nii kvalitatiivseid kui ka kvantitatiivseid uurimismeetodeid. Kvalitatiivseteks meetoditeks on kirjanduse ülevaade ja tehtud intervjuud. Kvantitatiivseteks meetoditeks on küsimustike abil sooritatud uuringud. Töös on kõigepealt loodud põhjalik uurimistöö raamistik, et tuvastada Hiinas asuvate rahvusvaheliste ühissettevõtete peamised “jagatud” edutegurid, seejärel tehtud üksikasjalikud juhtumiuuringud ning ankeetküsitlused tuvastatud peamiste “jagatud” edutegurite valideerimiseks.

Uurimistulemustest selgub, et peamiseks eduteguriks on “usaldus”, mida on doktoritöös uuritud küsitlusuuringute abil. Põhjalikus juhtumiuuringus on käsitletud ka teist olulist tegurit, milleks on “asukoht”. Nn “pehme” tegur “usaldus” ja “kõva” tegur “asukoht” on Hiina kontekstis rahvusvahelistele ühissettevõtetele edu saavutamiseks eriti olulised. Uurimistulemustest selgusid olulised tähelepanekud. Näiteks on Hiinas väga tähtsal kohal “usaldus” nii individuaalses kui ka sotsiaalses tähenduses, kuid individuaalne tähendus on Hiina guanxi-põhisest kultuuriühiskonnast ja Hiina sõprustraditsioonidest tulenevalt olulisem. Seetõttu ei tohiks välismaalased sattuda segadusse usalduse erinevatest tähendustest. Samuti selgus, et palgatase ei ole sugugi kõige olulisem tegur isikliku rahulolu ning inimeste vahelise usalduse suurendamisel. Pigem võivad inimeste vahelise usalduse suurendamisel tähtsat rolli mängida muud aspektid, nagu suhtlemine, ettevõttekultuur, mitterahalised stiimulid. Doktoritööst järeldub ka, et inimvara spetsiifilisuse ja korporatiivpartnerite vahelise suhte tulemuslikkuse vahel valitseb lineaarne positiivne seos. Seevastu füüsilise vara spetsiifilisuse ja koostööpartnerite vahelise suhte tulemuslikkuse vahel valitseb pöördvõrdeline U-tüüpi seos. Seetõttu tuleks praktikas rohkem rõhutada inimvara spetsiifilisust (näiteks “usaldust”). Samuti on oluline mõista erinevusi rahvusvaheliste ühissettevõtete vahel, kel on erinevatest lääneriikidest pärit ematettevõtted. Hiina-Soome rahvusvahelisi ühissettevõtteid iseloomustab sageli pikaajaline orientatsioon, samas kui Hiina-Anglo-Saksi rahvusvahelisi ühissettevõtteid iseloomustab suhteliselt lühiajaline orientatsioon. Ka usalduse tunnetus võib erinevate rahvusvaheliste ühissettevõtete puhul olla erinev. “Asukoha” tegur on Hiinas asuvate rahvusvaheliste ühissettevõtete jaoks samuti oluline. Võttes arvesse Hiina tohutut suurust, tuleks rahvusvaheliste

ühisettevõtete asukoha valikul arvestada kohalikku subkultuuri, kohalikke loodusvarasid, kohaliku valitsuse poliitikat jms, et langetada asjatundlikke otsuseid.

Osana OBORi algatustest on Hiina valitsuses toimumas õiguskorralduslikud muutused, toetamaks teadmiste jagamist ning õpet rahvusvahelistes ühisettevõtetes. Sellest tulenevalt peaksid rahvusvaheliste ühisettevõtete strateegiad ja poliitika seda suundumust peegeldama. Tarvis oleks välja arendada mõningad strateegiad ja poliitika, et ergutada kõrgtehnoloogiliste rahvusvaheliste ühisettevõtete arengut. Näiteks peaksid poliitikud rahvusvaheliste ühisettevõtete puhul pidama esmatähtsaks teadus- ja arendustööd ning talendijuhtimist. Rahvusvahelistes ühisettevõtetes endis tuleb tähelepanu pöörata heale asukohale ja vajadusel asukoha muutmisele ning parendada kõikidel tasemetel usaldust, et tagada rahvusvaheliste ühisettevõtete vastutustundlik ja jätkusuutlik areng Hiinas.

Appendix 1

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The contingent effects of asset specificity, contract specificity, and trust on offshore relationship performance

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ABSTRACT

Drawing on the perspectives of interfirm governance mechanisms, we develop a contingency theoretical framework that examines how contract specificity and trust interact with local suppliers' physical asset specificity and human asset specificity in shaping the relationship performance of offshore cooperation between local suppliers and global buyers. The empirical data for hypothesis testing were collected from a survey of 162 dyads composed of Chinese local suppliers and international buyers. The empirical results reveal an inverted U-shaped relationship between physical asset specificity and relationship performance, and this inverted U-shaped relationship is stronger when the level of contract specificity is higher. There is a linear and positive relationship between human asset specificity and relationship performance, and this relationship becomes stronger when the level of trust between the local supplier and international buyer is higher.

1. Introduction

Firms in developed countries have increasingly outsourced their value-added activities from local suppliers in emerging countries in the form of offshore buyer–supplier cooperation. The success of this offshore buyer–supplier cooperation may depend on how well the relationship between the two partners goes (Bertrand & Mol, 2013). Among the various factors that explain relationship performance in offshore cooperation, asset specificity – nonredeployable specific investments that are dedicated to such relationships (Hoetker & Mellewigt, 2009) – has been identified as a primary determinant by prior studies (De Vita & Tekaya, 2015; Wu, Chen, Chen, & Tung, 2016). However, whether asset specificity facilitates or hinders relationship performance remains inconclusive in the literature. Some scholars postulate that such investments can lose at least part of their value if the transactional relationship was terminated because this type of investment is often designed for a particular transaction and shifting it to other businesses is difficult (Williamson, 1991), in turn hindering relationship performance (Liu, Liu, & Li, 2014). Another strand of literature argues that asset specificity signals the desire to invest in an enduring relationship (Lui, Wong, & Liu, 2009), which can improve

partners' trust and satisfaction (Dyer, 1996), thereby leading to behavior-enhanced relationship performance (Lin, Huang, Lin, & Hsu, 2012). Accordingly, further examination of the effect of unilateral specific investment on relationship performance in offshore cooperation represents an important research agenda that should shed some light on the prior controversial findings on the topic.

Furthermore, the transaction cost theory-related literature has documented that the term *asset specificity* means “many different things to different people,” and this literature calls for a more comprehensive scale of the construct's multidimensional nature (David & Han, 2004; Williamson & Riordan, 1985). On the one hand, an asset can be physically specific (i.e., physical asset specificity, PAS), referring to tangible investment assets such as tools, equipment and machinery. On the other hand, it can be human relational specific (i.e., human asset specificity, HAS), referring to intangible investment assets such as organizational investments related to customizing workflows, professional training, and learning to serve international buyers (Zaheer & Venkatraman, 1995). In addition, the impacts of PAS and HAS on relationship performance may vary in an emerging country such as China. However, prior studies were exclusively concerned with the estimation of a single, albeit composite, asset specificity, with a focus on

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outsourcing cooperation in domestic settings in developed countries (De Vita, Tekaya, & Wang, 2010), neglecting the significance of the differences in cultures, institutions and bargaining positions between local suppliers in developing countries and international buyers in developed countries in cross-border exchanges (Zhou & Xu, 2012). Consequently, in terms of the management of PAS and HAS to enhance relationship performance in a cross-border context, we lack a clear understanding of the strategic significance of such management for local suppliers in emerging developing countries.

The interfirm governance literature suggests that safeguarding partners' asset specificity investments and maintaining an effective business relationship in such interfirm cooperation require effective governance mechanisms (Yang, Zhao, Yeung, & Liu, 2016). Thus, firms in partnerships and dealing with cross-border transactions need to employ appropriate governance mechanisms, namely, formal and informal interfirm mechanisms, to avoid transactional uncertainties and risks of opportunism (Xie, Liang, & Zhou, 2016). Formal interfirm governance mechanism-related studies, usually building on transaction cost economics (TCE), emphasize the role of formal control, such as contract specificity, to regulate cooperation (Poppo & Zenger, 2002). At the same time, TCE also stresses the importance of informal interfirm governance mechanisms, such as norms and enduring relationships, whereby the role of more relational governance mechanisms, such as trust and social interactions, must be taken into account (Shahzad, Ali, Takala, Helo, & Zaeafarian, 2018). Different governance mechanisms are required for different transaction objectives in governing offshore cooperation relationships (Hoetker & Mellewigt, 2009); hence, it is important to understand specifically how contract specificity and trust shape the effects of PAS and HAS on the performance of the relationship.

This study makes three major contributions to the body of literature on interfirm relationship performance. First, it identifies and empirically examines the two distinctive dimensions of asset specificity, PAS and HAS, and evaluates the differentiated impacts of PAS and HAS on the relationship performance embedded in offshore cooperation. Second, while previous studies limited their attention to the linear effects of asset specificity, our study discovers a nonlinear impact of PAS on relationship performance by examining how formal and informal interfirm governance mechanisms affect the relationship performance of offshore cooperation when interacting with different types of asset specificities. Third, this study extends the outsourcing-related relationship performance literature on formal and informal control mechanisms by exploring how contract specificity and trust influence the relationships between relationship performance and PAS and HAS, respectively.

2. Theoretical foundations

2.1. Asset specificity investment and inter-firm governance mechanisms

Asset specificity refers to the “durable investments that are undertaken in support of particular transactions” (Williamson & Riordan, 1985; p. 55). Once sunk, these investments cannot be redeployed (or can be deployed only at a high productivity discount) to alternative inter-organizational relationships if the cooperative relationship was destined to terminate (Dyer, 1996). Such investments can be tangible (e.g., physical materials such as tools, equipment and machinery) or intangible (e.g., knowledge-specific assets such as the learning and training of personnel) (David & Han, 2004). In offshore cooperative businesses, local suppliers' main tasks are often to process and assemble products according to the requirements of international buyers such that their roles are competence exploiting, either as local implementers or as assemblers (Lin et al., 2012). To enhance the production efficiency and thus improve the effectiveness of the offshore cooperation, local suppliers make these idiosyncratic investments in both tangible and intangible assets for the offshore cooperation (Jean, 2014; Kang,

Mahoney, & Tan, 2009). In this study, we focus our examinations on the PAS and HAS that are invested by local suppliers and are uniquely dedicated to a particular offshore cooperation.

Managing both PAS and HAS investments requires the use of adequate inter-firm governance mechanisms to safeguard the process in order to effectively overcome the challenges in achieving a viable and fruitful balance of interests and power between partners (Nooteboom, 1999). According to TCE studies, the formal inter-firm governance mechanisms refer to “depersonalized exchanges, a reliance on financial parameters, and the drafting and implementation of formal contracts” (Ferguson, Paulin & Bergeron, 2005; p. 217). In line with the logic of resource exchange theory, the informal governance are normally considered including social-based mechanisms that enhance information sharing, open communication and cooperation which are based on trust (Ryall & Sampson, 2009; Wang & Tanaka, 2011). Since different governance mechanisms are required for different transaction objectives in governing offshore cooperation relationships (Hoetker & Mellewigt, 2009), it is important to understand how contract specificity and trust may shape the effects of PAS and HAS on the performance of the relationship (Shahzad et al., 2018; Xie et al., 2016). Considering the inter-firm governance mechanisms, the relationship between asset specificity and relationship performance is subject to two interpretations. The formal inter-firm governance literature emphasizes the role of formal control such as contract specificity, which provides a protective mechanism for safeguarding specific assets against opportunism by specifying each party's rights, duties, and responsibilities, contract specificity (Fryxell, Dooley, & Vryza, 2002). The informal inter-firm governance studies underscore the importance of trust by providing a “mini-society with a vast array of norms” (Williamson & Riordan, 1985; p. 71) behavior and functioning as a social lubricant for steering partners' behaviors in reducing transaction costs and fostering effective exchanges (Poppo, Zhou, & Ryu, 2008).

2.2. Theoretical framework

A well-performing relationship between partners in an offshore cooperation occurs when both the local supplier and the international buyer are satisfied with the relationship's effectiveness and efficiency (Jean, Sinkovics, & Kim, 2014). PAS and HAS provide better offshore manufacturing capabilities by improving offshore cooperation efficiency and helping local suppliers coordinate their production processes with their international buyers (De Vita et al., 2010; Kang et al., 2009). Thus, both PAS and HAS can be considered important antecedents to relationship performance in such context. The adoption of formal inter-firm governance mechanisms such as contract specificity and informal inter-firm governance mechanisms such as trust helps to safeguard the suppliers' asset specificity and shapes various features of offshore cooperation, including inter-partner knowledge-sharing efficiency and trustworthy relationship building (Dyer & Hatch, 2006), and thus may have a significant influence on the relationship between asset specificity and relationship performance. Therefore, we incorporate these two different types of inter-firm governance mechanisms to specifically examine how contract specificity and trust interact with PAS and HAS respectively in shaping the relationship between both PAS and HAS and relationship performance in a cross-national context. In line with the logic discussed above, we develop a contingency theoretical framework that postulates two broad propositions: 1. physical asset specificity and human asset specificity affect relationship performance; and 2. contract specificity and trust moderate the effect of physical asset specificity and human asset specificity on the relationship performance, respectively. Our theoretical framework is presented in Fig. 1.

2.3. Hypotheses

2.3.1. Physical asset specificity and relationship performance

In offshore cooperation, PAS can be considered to reflect a positive

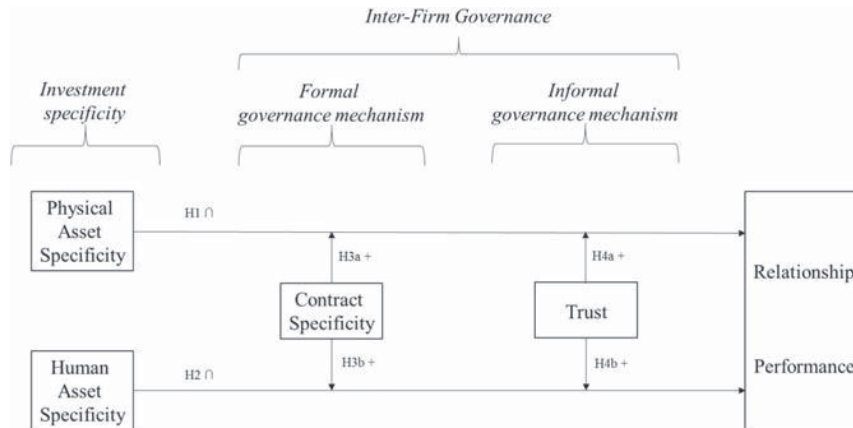


Fig. 1. Conceptual framework.

desire on the part of the local supplier to build a long-term cooperative relationship with the international buyer and thus to help cultivate a bilateral expectation between them (Wu et al., 2016). When both parties share a bilateral expectation, the local supplier has more opportunities to acquire valuable knowledge from the international buyer, who, in turn, is willing to spend more time articulating its know-how, which improves cooperation performance in the offshore cooperative partnership (Mooi & Frambach, 2012). PAS may also help enhance local suppliers' production capacity, which may help increase process efficiency and effectiveness, in turn increasing the international buyer's satisfaction in working with local suppliers (Wagner & Bode, 2014). This may encourage the international buyer to invest more in the cooperative business, and consequently, the relationship between the partners can be improved (Kang et al., 2009). Furthermore, PAS improves the supplier's motivation for joint decision making with the international buyer since joint decision making allows the supplier to influence the decisions of the international buyer in a manner that is favorable to the supplier (Lin et al., 2012). It also allows suppliers to identify opportunities to improve their deployment of PAS (Dyer & Singh, 1998), which may result in stronger buyer–supplier relationship continuity, effectively enhancing the efficiency of the offshore cooperation.

However, these positive effects may begin to decline and even become negative when PAS reaches an exceedingly high level for two primary reasons. First, higher PAS increases the likelihood of hold-ups within the offshore relationship (Dyer & Hatch, 2006), causing the supplier to suffer from making unnecessary obligations to serve the international buyer (Villena, Choi, & Revilla, 2016). Additional responsibilities that require continuous investments of time and effort will deplete local suppliers' limited resources and decrease their motivation to acquire additional information and knowledge. Furthermore, the international buyer may exploit its powerful position to obtain more profits from the offshore cooperation (Bertrand & Mol, 2013), severely hindering the efficiency of the offshore cooperation and damaging relationship performance. Second, when a local supplier's PAS is higher, its responsiveness to both the international buyer's changing requirements and the product portfolio might decrease since PAS is generally designed for the initially best employment purposes (Klein, Crawford, & Alchian, 1978). In response to the international buyer's ever-changing needs, more efforts need to be mobilized to develop mutual understanding and cooperative norms, including managing both products and the appropriate use of assets (Narayanan, Narasimhan, & Schoenherr, 2015). Due to these difficulties in developing new products and managing existing products at higher levels of PAS, relationship

performance may deteriorate. Thus, we hypothesize the following:

Hypothesis 1. There is an inverted U-shaped relationship between physical asset specificity and relationship performance.

The investment of HAS by local suppliers may signal their commitment to developing an enduring relationship, which may help increase international buyers' trust and cultivate positive cooperative behaviors leading to an enhanced relationship (Lui et al., 2009). In addition, HAS can enhance the efficiency of offshore cooperation through employee training and the recruitment of additional staff for the sole purpose of serving the international buyer (Kang et al., 2009), contributing to improving the relationship between partners. Moreover, the significant differences in cultures and institutions between the host and home countries of the partners can make it difficult for the partners to reach a mutual understanding and resolve conflicts by legal means (Choi & Contractor, 2016). The knowledge-specific assets spent serving a particular international buyer can increase the likelihood of a better understanding and enhanced communication efficiency between the partners, which may help the international buyer value the potential benefits associated with the offshore cooperation with the local supplier (Cavusgil, Deligonul, & Zhang, 2004). As a result, the international buyer may be more likely to exchange its resources with the local supplier and reinforce reciprocal knowledge transfer, leading to improved relationship performance.

However, the positive effects of HAS may decline or even become negative when the level of HAS is too high for several reasons. First, HAS can also lead to problems such as a lock-in situation, a narrower product portfolio and risks of opportunism when its level becomes excessively high (Williamson, 1991). Second, although HAS helps improve suppliers' services for specific international buyers, exceedingly high investments in such assets may lead to the path dependence of knowledge accumulation and learning, causing the environment to be an ecological field that is suitable for self-existence but that is not conducive to the survival of other technologies (Kogut & Zander, 1992). As a result, a large quantity of knowledge accumulated by a supplier to serve a particular international buyer may impede its effective learning of other knowledge, severely limiting its openness to information. Thus, we hypothesize the following:

Hypothesis 2. There is an inverted U-shaped relationship between human asset specificity and relationship performance.

2.3.2. The moderating effect of interfirm governance mechanisms

The relationship between asset specificity and relationship

performance may be context specific to the types of interfirm governance mechanisms employed. The formal interfirm governance literature emphasizes the role of contract specificity, which relies on contractual agreements to safeguard asset specificity and to regulate relationships (Hoetker & Mellewigt, 2009). Informal interfirm governance studies underline the important role of trust, which focuses on the reliability, credibility, and benevolence of a partner (Jia, 2013). Since different governance mechanisms are required for different transaction objectives in interfirm relationships (Wang, Zhang, & Jiang, 2018), the effects of PAS and HAS on relationship performance may vary with the level of contract specificity and trust.

Contract specificity is expected to strengthen the positive effect of asset specificity (i.e., PAS and HAS) when asset specificity is at a lower level. The international buyer might not want to share valuable knowledge with the local supplier due to concerns over the leakage of core knowledge when the local supplier's asset specificity is low to moderate (Cannon & Perreault Jr, 1999). Detailed contractual provisions specify procedures for offshore cooperation and ensure resource exchange through scrutiny and penalty mechanisms by a third party (Hoetker & Mellewigt, 2009). This formal mechanism can reduce the risks associated with knowledge transfer in an offshore cooperation relationship when the supplier's asset specificity is at a low or moderate level (Wuyts & Geyskens, 2005), which fosters the international buyer's confidence in knowledge sharing, thus improving the positive effects of PAS and HAS on the relationship between the partners.

Offshore cooperation often suffers from a misunderstanding of the information needs and resource obligations of the partners, which may negatively affect the effectiveness of the suppliers' asset specificity (Li, Li, Liu, & Yang, 2010). By providing detailed rules stipulating the content, roles and purpose of the supplier's asset specificity, contract specificity may decrease this ambiguity related to suppliers' asset specificity (Cavusgil et al., 2004). In addition, it provides evaluation criteria for international buyers to accurately investigate and evaluate suppliers' asset specificity, thus causing the value of such investments to be more easily recognized by international buyers (Choi & Contractor, 2016). This helps partners recognize the potential value of asset-specific investments, ensuring the smooth operation of the offshore cooperation (Doh, 2005) and improving the positive effects of the local supplier's asset specificity on relationship performance for the offshore cooperation.

However, under certain circumstances, contract specificity coupled with high levels of asset specificity may be detrimental to relationship performance. The reason is that the detailed contract may limit the supplier's autonomy by stipulating the tasks, duties and rights *ex ante* (Wuyts & Geyskens, 2005), which may increase the severity of the potential lock-in situation. Because an offshore cooperation is an adaptive process, partners can suffer the myopia of focusing on codified information without flexibly adapting to market changes outside of these standard contractual procedures and policies (Zhou, Zhang, Sheng, Xie, & Bao, 2014). In addition, detailed contracts rely on regulatory or legal authorities to impose sanctions (Cavusgil et al., 2004), which conflicts with the principles of trust building and may undermine the mutual understanding between the partners (Lin et al., 2012). In such a situation, it is more difficult for the local supplier to adequately manage the use of overinvested asset specificity to meet the international buyer's changing requirements. Therefore, contract specificity may enhance the negative effects of asset specificity on the product portfolio and relationship performance. Thus, we hypothesize the following:

Hypothesis 3a. The inverted U-shaped effect of physical asset specificity on relationship performance is stronger (deeper) when contract specificity is at a high level, and vice versa.

Hypothesis 3b. The inverted U-shaped effect of human asset specificity on relationship performance is stronger (deeper) when contract specificity is at a high level, and vice versa.

It is plausible to expect trust to strengthen the positive effect of asset specificity on the local supplier's relationship performance from two perspectives. First, trust breeds a shared identity, similar values and common goals between partners, and hence, it helps build a foundation for efficient offshore cooperation through asset specificity (Dyer & Singh, 1998). This informal interfirm governance mechanism fosters the exchange partners' confidence in the offshore cooperation and helps improve the quality of communication between the partners, further enhancing the positive impacts of asset specificity on relationship performance (Kano, 2017; Mooi & Frambach, 2012).

Second, by stressing self-regulation and positive self-motivation, trust may lead to a win-win environment that encourages partners to maximize their mutual interests by minimizing opportunistic behaviors (Zhou, Zhang, Zhuang, & Zhou, 2015). In such a situation, local suppliers are encouraged to invest more in asset specificity (i.e., PAS and HAS), enhancing the suppliers' ability to provide better specialized agency services for specific international buyers. International buyers will also increase their willingness to share key technologies and knowledge with suppliers (Fryxell et al., 2002), thus enhancing the positive effect of asset specificity on relationship performance.

However, trust can also become counterproductive to the relationship between asset specificity and relationship performance after it reaches a certain level. The reason is that high levels of trust imply strong norms and ingrained routines such that the interaction between the partners becomes rigid or stuck in patterns (Lin et al., 2012), strengthening the lock-in situation of the local supplier incurred by overinvested asset specificity. Additionally, trust is represented by credibility and mutuality, which may reflect the same or similar values, ideas, and attitudes between partners (Heide & John, 1992). When the local supplier shares the same values as its international buyer, it is more likely to become complacent in the existing offshore partnership without qualifying shared knowledge from the international buyer (Poppo et al., 2008). Such complacency may restrain local suppliers from challenging international buyers' positions, hindering their expansive understanding of problems and retarding the development of new ideas. As discussed in H1 and H2, high levels of both PAS and HAS may incur problems such as a narrower scope of product and technology diversity. Trust may further narrow this scope and damage the relationship's performance (Wang, Terziovski, Jiang, & Li, 2017). Thus, we hypothesize the following:

Hypothesis 4a. The inverted U-shaped effect of physical asset specificity on relationship performance is stronger (steeper) when the trust level is high.

Hypothesis 4b. The inverted U-shaped effect of human asset specificity on relationship performance is stronger (steeper) when the trust level is high.

3. Methods

3.1. Survey instrument development

Two structured questionnaires were developed in English language. One was used for collecting survey data from local suppliers, and the other was used for collecting survey data from international buyers. The questionnaires were then translated into Chinese, which was also back-translated into English. In doing so, the wordings of some questions were readjusted to improve the match between the Chinese and English versions. Before the surveys were conducted, a pre-test of the questionnaires was conducted with Chinese local suppliers. A total of 100 questionnaires in Chinese with an accompanying letter explaining the purpose of the survey were delivered in person by the first author to 100 local Chinese suppliers located in the country's Yangzi River Delta region. It was requested that one knowledgeable senior executive from each Chinese local supplier be the respondent to complete the

questionnaire. In total, 91 completed questionnaires were returned, and 86 of which were found usable after a careful screening. We then performed corrected item-total correlation (ITC) analysis and the alpha reliability coefficient analysis. The questionnaire comprised 30 measurement items. Six of the items with values lower than 0.7 were deleted. Thus, the questionnaire that was subsequently used for survey data collection consisted of 24 items.

3.2. Sample and data collection

Similar to a prior study (Wang et al., 2018), we used part of a survey database that was collected from Chinese local suppliers and their respective foreign buyers. The list of the local suppliers was compiled based on three major sources including the Economic Commerce Committee, the Ministry of Commerce website, and The Information Bank (an open database). A total of 860 offshore local suppliers located across nine Chinese regions and provinces were identified as the population for the survey, and 632 of which were defined as the sample for the survey based on two criteria; i.e., the selected local suppliers must: (1) have at least one of their top five international buyers located developed countries (Zhou & Xu, 2012); and (2) be a firm operating in the manufacturing sector in which most offshore cooperation in China occurs (Li et al., 2010).

The survey data were collected in two steps. First, we visited each of the individual firms in person to solicit their cooperation. In total, 238 firms agreed to participate in the survey. We requested senior executives, including CEOs, or vice presidents, or senior marketing managers, from each firm to participate in the survey. We chose an onsite interview method to collect survey data from the local suppliers in China. The interviewers were professional surveyors from a consulting firm. Because the unit of analysis was an offshore buyer–supplier dyad, we asked the senior managers of the local suppliers to select one of their five overseas customers (international buyers) located in developed countries and then answer the relevant questions (Zhou et al., 2014). In total, 232 completed questionnaires were returned from local Chinese suppliers of which 229 were usable. In the second step, the paired questionnaires were then emailed to the international buyers designated by the corresponding suppliers, and purchasing department supervisors of these international buyers were asked to provide information on the relevant variables. 178 completed questionnaires from 229 international buyers were returned, and 162 of which were usable. The final dataset thus consisted of 162 local suppliers – international buyer dyads. To check for non-response bias, thirty companies, randomly selected from those who did not respond, were analysed for their firm-level attributes, such as number of employees, sales volume and age and paired with the responding firms. The *t*-tests did not show any significant difference between the non-responding and responding firms (number of employees: $t = 1.66$, $p = .11$; firm age: $t = 2.21$, $p = .17$; sales volume $t = -1.54$, $p = .13$). Thus, the tests results indicate that the non-response bias is not present in the sample.

3.3. Measurements

The measures were adapted from the established scales of prior studies. All focal variables were measured on five-point Likert scales (“1” being strongly disagree, and “5” being strongly agree). Table 1 reports the measurement items and their validity assessments.

The measurement for *relationship performance* (dependent variable) was adopted from Cavusgil et al. (2004) and Selnes and Sallis (2003) with six items that capture the international buyers' satisfaction with the quality of the service, supplier's responsiveness to problems or queries, as well as the overall benefits obtained from outsourcing the activity.

The measurement for *physical asset specificity* (independent variable) was adopted from Anderson and Weitz (1992) and De Vita et al. (2010) to assess the local supplier's physical investments, such as tools,

equipment, machinery and other physical materials dedicated to servicing the international buyer. The measurement for *human asset specificity* (independent variable) was adopted from Heide and John (1992) and De Vita et al. (2010) to assess the local supplier's human investments, such as customisation of workflows and the expenses of personnel training and learning for the purposes of serving the specific international buyer.

The measurement for *contract specificity* (moderator) was adopted from Cannon and Perreault Jr (1999) and Wuyts and Geyskens (2005) to examine the degree to which the contractual provisions clearly specify and detail the obligations and responsibilities of each party in the offshore cooperation. The measure for *trust* (moderator) was adopted from Doney and Cannon (1997) and Yli et al. (2001) to capture the degree of trust and support between international buyers and local suppliers in their offshore partnerships.

We also included six control variables adopted from prior studies in order to avoid alternative explanations of the results. *Supplier age* was measured by the number of years since a supplier was established (Poppo & Zenger, 2002). *Supplier size* was measured by the log of the number of the local supplier's employees (Doh, 2005). *Industry type* was measured as a dummy variable that was coded as “1” for high-tech industries and “0” otherwise (Hauknes & Knell, 2009). *Offshore cooperation tenure* was measured by the number of years that the local supplier has been involved in cooperation with the international buyer (Li et al., 2010). *Local suppliers' location* was measured as a dummy variable representing the western region (coded as “1”) and central and eastern regions (coded as “0”, Wang et al., 2018). *International buyers' location* was coded with three dummy variables to control for the international buyers' location heterogeneity across North America, Europe and Oceania.

3.4. Reliability and validity

Composite reliability assesses inter-item consistency and was operationalised with the internal consistency method estimated by Cronbach's alpha. Table 1 indicates that the values of all constructs (ranging from 0.86 to 0.90) are well above 0.70, providing evidence of measure scale reliability. Convergent validity was assessed by examining both factor loadings and the average variance extracted (AVE). Table 1 shows that all factor loadings were highly significant at the 0.001 level and the AVE for each construct were greater than 0.50, which demonstrates adequate convergent validity (see Table 2). Moreover, we calculated the AVE, which measures the overall proportion of the variance in the indicators accounted for by the latent construct. Table 2 shows that the AVE of each construct exceeds the squared correlations between the latent variable and every other variable, providing strong support for discriminant validity (Fornell & Larcker, 1981).

3.5. Common method variance

To minimise common method variance (CMV), we used data collected from different sources to test the hypothesised relationships. The data for the independent variables and moderators were collected from Chinese local suppliers, and the data for the dependent variable were collected from the respective international buyer for each Chinese supplier. We also performed three statistical tests. None of the single-factor tests (Harman, 1967) or the partial correlation technique (Burke, Brief, & George, 1993) demonstrated any significant issues with CMV. The third test included all of the variables in a single-factor confirmatory factor analysis model, and the poor model fit ($\chi^2/d f = 5.379$, CFI = 0.521, NFI = 0.418, IFI = 0.487, GFI = 0.246, RMSEA = 0.321) indicates that no single factor can explain the majority of the variance (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003).

Table 1
Measurement properties.

Variables and items	Factor loading	Alpha	CR	AVE
Physical asset specificity (Anderson & Weitz, 1992; De Vita et al., 2010)				
PAS1: We have expanded our production capacity in the hope of a long-term relationship with this international buyer.	0.86***	0.88	0.89	0.66
PAS2: We have made a substantial investment in facilities dedicated to this international buyer.	0.84***			
PAS3: We have made a substantial investment in customized machinery, tools, etc., which are dedicated to this international buyer.	0.86***			
PAS4: If we stopped cooperation with this international buyer, we would have a lot of trouble redeploying our facilities presently serving this international buyer.	0.70***			
Human asset specificity (De vita et al., 2010; Heide & John, 1992)				
HAS1: We have recruited additional staff for the sole purpose of serving this international buyer.	0.76***	0.86	0.86	0.61
HAS2: We have made a substantial investment in employee training for the purpose of serving this international buyer.	0.84***			
HAS3: We have made employee training that is specifically tailored to the cooperation with this international buyer.	0.80***			
HAS4: If we stopped cooperation with this international buyer, we would have a lot of trouble redeploying our employees presently serving this international buyer.	0.71***			
Contract specificity (Cannon & Perreault Jr, 1999; Wuyts & Geyskens, 2005)				
CON1: Our relationship with this international buyer is governed primarily by written contracts.	0.82***	0.89	0.90	0.65
CON2: We have precisely stated the enforceability of the contract and legal liability of the two companies in our contract.	0.77***			
CON3: We have precisely stated the duties and rights in our contract.	0.86***			
CON4: We have precisely stated the method/process of contract modification (renegotiation) in our contract.	0.80***			
CON5: We resolve disagreements by referring back to the contract in the cooperation with this international buyer.	0.75***			
Trust (Doney & Cannon, 1997; Yli, Autio, & Sapienza, 2001)				
TRU1: The international buyer fully trusts our production ability.	0.78***	0.88	0.88	0.61
TRU2: As far as key issues are concerned, the international buyer is always honest with us.	0.90***			
TRU3: The international buyer and our company feel indebted to our collaborating.	0.74***			
TRU4: The international buyer is genuinely concerned about whether our business succeeds.	0.77***			
TRU5: When making important decisions, our international buyer considers our welfare as well as its own.	0.71***			
Relationship performance (Cavusgil et al., 2004; Selnes & Sallis, 2003)				
RP1: We are very satisfied with the quality of the service received in terms of consistency, timeless and accuracy.	0.79***	0.90	0.91	0.62
RP2: We are very satisfied with this supplier's responsiveness to problems or queries.	0.74***			
RP3: We are very satisfied with the overall benefits obtained from outsourcing this function.	0.84***			
RP4: Overall, the objectives set by our company in relation to the outsourcing project have been met.	0.83***			
RP5: The service level received from this supplier has exceeded our company's expectations.	0.78***			
RP6: Outsourcing the function of reference has allowed our company to concentrate own resources on core activities.	0.72***			

Note: $\chi^2/d f = 1.21$, NFI = 0.90, CFI = 0.98, IFI = 0.98, TLI = 0.98, RMSEA = 0.036.

*** p < .001.

4. Results

4.1. Hypothesis testing findings

Table 3 presents the results of the standardized regression estimates.

The independent variables and moderators were mean-centered prior to the formation of the interaction terms. Table 2 shows that none of the correlation coefficients is greater than 0.5, the threshold value provided by Churchill (1991). All of the variance inflation factors (VIFs) are well below the recommended cutoff point of 10 (see Table 3), suggesting the

Table 2
Descriptive statistics and correlations (n = 162).

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Supplier age	–													
2. Supplier size	0.09	–												
3. Industry type	0.08	0.08	–											
4. OCT	0.21**	0.02	0.10	–										
5. Eastern Region	–0.04	–0.02	0.09	0.01	–									
6. Western Region	0.16*	–0.03	–0.04	0.08	0.09	–								
7. North America	0.04	0.06	0.07	0.08	0.03	–0.06	–							
8. Europe	–0.02	–0.08	–0.01	–0.02	0.09	–0.01	0.02	–						
9. Oceania	–0.004	–0.09	–0.05	–0.10	–0.05	0.17*	–0.05	–0.05	–					
10. PAS	0.13	–0.01	0.07	–0.01	0.03	–0.04	0.14†	0.15†	0.02	0.81				
11. HAS	0.06	0.04	–0.07	0.09	0.01	0.01	0.15†	0.10	–0.08	0.34***	0.78			
12. RP	0.11	–0.07	0.11	0.12	0.15†	0.05	0.09	0.08	0.02	0.36***	0.43***	0.81		
13. CS	0.13†	0.08	0.01	–0.04	0.15†	–0.07	0.03	0.08	–0.02	0.20*	0.07	0.19*	0.79	
14. Trust	–0.04	–0.06	–0.10	–0.02	–0.02	0.06	–0.04	0.06	0.03	0.23**	0.34***	0.16*	0.20*	0.85
Mean	14.45	2.85	0.019	7.72	0.28	0.19	0.29	0.31	0.01	2.84	2.60	3.21	3.35	3.00
S.D.	9.18	0.77	0.039	4.63	0.45	0.39	0.46	0.46	0.08	0.73	0.64	0.55	0.64	0.61

Note: The data on the diagonal (in bold font) is the square root of AVE of the construct.

Offshore cooperation tenure (OCT); Physical asset specificity (PAS); Human asset specificity (HAS); Relationship performance (RP); Contract specificity (CS). Using the data collected from local suppliers for the independent variables and moderators, and using the data collected from international buyers for the dependent variable.

† p < .10.

* p < .05.

** p < .01.

*** p < .001.

Table 3
The results of regression analysis (n = 162).

Variables	Relationship performance							
	Model1	Model2	Model3	Model4	Model5	Model6	Model7	Model8
Control variables								
Supplier age	0.050	0.065	0.084	0.116	0.093	0.073	0.092	0.052
Supplier size	0.109	0.088	-0.016	0.058	-0.039	0.044	-0.034	0.029
Industry type	0.075	0.072	0.102	0.079	0.091	0.085	0.115	0.059
Offshore cooperation tenure	0.145 [†]	0.149*	0.147*	0.101	0.125 [†]	0.031	0.125 [†]	0.086
Eastern Region	0.162*	0.151*	0.101	0.131 [†]	0.109	0.099	0.065	0.101
Western Region	0.019	0.017	-0.089	0.046	-0.072	-0.043	-0.092	-0.060
North America	0.055	-0.051	0.001	-0.077	0.030	-0.026	0.014	0.004
Europe	0.063	-0.016	-0.049	-0.015	-0.034	-0.010	-0.049	0.010
Oceania	0.043	0.018	0.092	0.016	0.113	0.099	0.088	0.111
Independent variables								
Physical asset specificity (PAS)		0.447***		0.412***		0.463***		0.354***
PAS ²		-0.228*		-0.210*		-0.280***		-0.153*
Human asset specificity (HAS)			0.537***		0.578***		0.487**	0.314***
HAS ²			0.103		0.006		0.107	0.056
Moderator								
Contract specificity				0.050				
Trust					0.122			0.014
Interaction								
Contract specificity* PAS				0.262**				0.190*
Contract specificity* PAS ²				-0.250**				-0.180*
Contract specificity* HAS					0.113			.110
Contract specificity* HAS ²					0.094			.034
Trust* PAS						0.093		0.106
Trust* PAS ²						-0.055		-0.057
Trust* HAS							0.514***	0.412***
Trust* HAS ²							-0.108	-0.077
Model fit								
R ²	0.091	0.330	0.325	0.432	0.383	0.396	0.351	0.546
Adj-R ²	0.043	0.281	0.276	0.378	0.325	0.338	0.289	0.422
F-value	1.810*	6.725***	6.569***	7.975***	6.527***	6.875***	5.676***	7.106***
Largest VIF	1.080	1.080	1.905	1.143	2.513	1.736	2.588	2.618

Note: Table entries are standardized regression coefficients (β).

Using the data collected from local suppliers for the independent variables and moderators, and using the data collected from international buyers for the dependent variable.

[†] $p < .10$.

* $p < .05$.

** $p < .01$.

*** $p < .001$.

nonexistence of multicollinearity between the variables (Neter, Wasserman, & Kutner, 1985).

Hypothesis 1 predicts an inverted U-shaped relationship between PAS and relationship performance. Model 2 indicates that PAS is positively correlated with relationship performance ($\beta = 0.447$, $p < .001$), whereas their quadratic terms exhibit a significant negative relation ($\beta = -0.228$, $p < .05$). To depict the curvilinear relationship, we calculated the simple slopes of the curvilinear relationship at low and high levels (i.e., one standard deviation below/above the mean) for PAS in Fig. 2 based on Cohen, Cohen, West, and Aiken (2003). The results show that PAS exerts a positive effect on relationship performance when it is low ($\beta = 0.73$, $p < .01$) but a negative effect when it is high ($\beta = -0.36$, $p < .05$). Therefore, **Hypothesis 1** is supported.

Hypothesis 2 predicts an inverted U-shaped relationship between HAS and relationship performance. Model 3 indicates that PAS is positively correlated with relationship performance ($\beta = 0.537$, $p < .001$), whereas their quadratic terms exhibit a nonsignificant positive relation ($\beta = 0.103$, $p > .10$). Therefore, **Hypothesis 2** is not statistically supported.

Hypothesis 3a predicts that contract specificity strengthens the inverted U-shaped relationship between PAS and relationship performance. Model 4 indicates a positive effect of the first-order interaction between PAS and contract specificity ($\beta = 0.262$, $p < .01$), whereas the effect of the second-order interaction between the squared PAS and

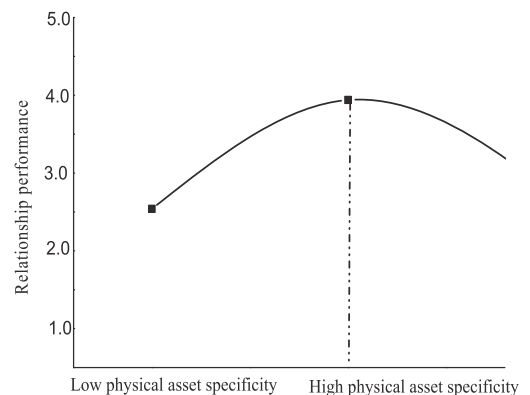


Fig. 2. Relationship between physical asset specificity and relationship performance.

contract specificity is negative ($\beta = -0.250$, $p < .01$). Fig. 3 shows that when PAS is low (left side of the dotted line), it exerts a stronger positive effect on relationship performance (steeper slope) at high levels of contract specificity. However, when PAS is high (right side of the

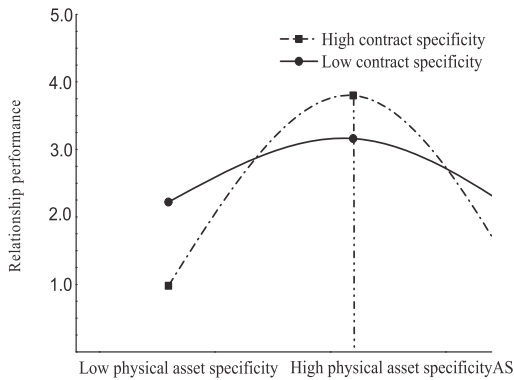


Fig. 3. Moderating effect of contract specificity on the relationship between PAS and relationship performance.

dotted line), relationship performance declines faster as PAS increases when contract specificity is high. Therefore, Hypothesis 3a is supported.

Hypothesis 3b predicts that contract specificity strengthens the inverted U-shaped relationship between HAS and relationship performance. Model 5 indicates that the effects of both the first-order interaction between HAS and contract specificity ($\beta = 0.113, p > .10$) and the second-order interaction between the squared HAS and contract specificity are nonsignificant ($\beta = 0.094, p > .10$). Therefore, Hypothesis 3b is not statistically supported.

Hypothesis 4a predicts that trust strengthens the inverted U-shaped relationship between PAS and relationship performance. Model 6 indicates that the effects of both the first-order interaction between PAS and trust ($\beta = 0.093, p > .10$) and the second-order interaction between the squared PAS and trust are nonsignificant ($\beta = -0.055, p > .10$). Therefore, Hypothesis 4a is not statistically supported.

Hypothesis 4b predicts that trust strengthens the inverted U-shaped relationship between HAS and relationship performance. Model 7 indicates a positive effect of the first-order interaction between HAS and trust ($\beta = 0.514, p < .001$), whereas the effect of the second-order interaction between the squared HAS and trust is nonsignificant ($\beta = -0.108, p > .10$). Hypothesis 4b is partially supported. Fig. 4 shows that HAS exerts a linearly negative effect on relationship performance when the trust level is low ($\beta = -0.14, p < .05$) but a linearly positive effect when trust in the offshore cooperation is at a higher level ($\beta = 0.31, p < .01$). Thus, trust is proven to strengthen the positive effect of HAS on relationship performance.

4.2. Robustness check

We use alternative measures as our explanatory variables to test the robustness of the results. The measures of relationship performance are assessed using international buyers' satisfaction with offshore cooperation, which may be different from local suppliers' assessments. To address this concern about asymmetry, we use an alternative measure of relationship performance adapted from Selnes and Sallis (2003) that reflects the assessment of relationship performance in offshore cooperation from local suppliers' perspectives. It asks local supplier managers to assess the extent to which the offshore cooperation relationship led to firm improvements in terms of (1) sales growth, (2) market share, (3) profitability, (4) product quality and (5) the rate of introducing new products to the market (CR = 0.88). We use a sample of 229 local suppliers to test our model; the results are presented in Table 4. The use of this alternative measure generates similar results, which provides additional support for our results.

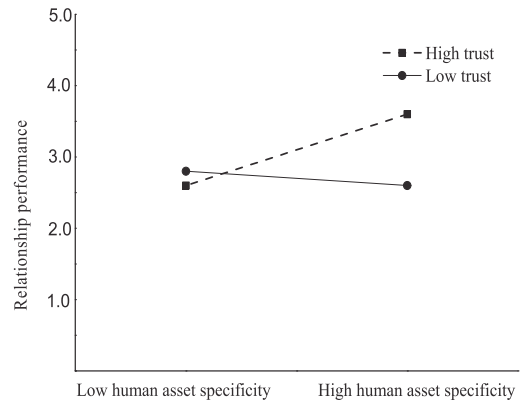


Fig. 4. Moderating effect of trust on the relationship between HAS and relationship performance.

4.3. Endogeneity

Since interfirm governance mechanisms (i.e., contract specificity and trust) are chosen to manage problems that arise due to specific investments, contract specificity and trust may be endogenous to PAS and HAS. Following prior studies (Garen, 1988; Mooi & Ghosh, 2010), this paper adopts whole residual analysis to correct for selection bias. We obtain the residual of contract specificity from Eq. (1) (η) and the residual of trust from Eq. (2) (μ), and we use these residuals as additional regressors in Eq. (3) after incorporating all the independent variables, moderators and control variables to test our hypotheses. Specifically, the residuals and the interaction terms ($\eta * CS, \eta * trust, \mu * CS$ and $\mu * trust$), along with the selection variables (i.e., CS and trust) and key exogenous variables (i.e., independent variables and control variables) are used as regressors in the analysis to implement the Garen procedure. We used FGLS to estimate the performance equation (Eq. (3)), where x is a vector of other determinants of relationship performance.

$$CS = \beta_0 + \beta_1 * PAS + \beta_2 * HAS + \beta_3 * x + \eta \tag{1}$$

$$Trust = \beta_0 + \beta_1 * PAS + \beta_2 * HAS + \beta_3 * x + \mu \tag{2}$$

$$Relationship\ performance = \beta_0 + \beta_1 * \eta + \beta_2 * \mu + \beta_3 * \eta * CS + \beta_4 * \eta * Trust + \beta_5 * \mu * CS + \beta_6 * \mu * Trust + \beta_1 * x_3 + \epsilon \tag{3}$$

As shown in Table 5, the parameter estimates for the residuals in all five models are highly significant ($p < .01$), indicating that contract specificity and trust are endogenous in our setting.¹ The results are

¹ Model 1 in Table 5 shows that the impact of the interaction between PAS and contract specificity on relationship performance is positive ($\beta = 0.27, p < .01$) but that the impact of the interaction between PAS² and contract specificity on relationship performance is negative ($\beta = -0.24, p < .01$). However, the impacts of the interaction between HAS and contract specificity and the interaction between HAS² and contract specificity on relationship performance are insignificant (Model 2 in Table 5: $\beta = -0.03, p > .10$; $\beta = 0.02, p > .10$). Similarly, Model 4 in Table 5 shows that the impact of the interaction between HAS and trust on relationship performance is positive ($\beta = 0.35, p < .01$) and that the impact of the interaction between HAS² and trust on relationship performance is nonsignificant ($\beta = 0.02, p > .10$). Model 3 in Table 5 shows that the impact of the interaction between PAS and trust and the impact of the interaction between PAS² and trust on relationship performance are nonsignificant ($\beta = 0.13, p > .10$; $\beta = 0.11, p > .010$).

Table 4
Robustness test (n = 229).

Variables	Relationship performance							
	Model1	Model2	Model3	Model4	Model5	Model6	Model7	Model8
Control variables								
Supplier age	0.037	-0.017	0.096	-0.020	0.113 [†]	0.110 [†]	0.130	0.090
Supplier size	0.106	0.106	-0.057	0.106	-0.095	0.000	-0.073	-0.013
Industry type	0.094	0.045	0.124	0.042	0.099	0.092	0.143 [*]	0.065
Offshore cooperation tenure	0.118	0.108	0.101	0.108	0.054	0.000	0.066	-0.034
Eastern Region	0.145 [*]	0.143 [*]	0.068	0.134 [*]	-0.069	-0.059	-0.083	-0.032
Western Region	-0.015	0.040	0.015	0.046	0.012	0.058	0.002	0.011
North America	-0.020	-0.057	-0.003	-0.077	0.021	-0.021	0.016	-0.018
Europe	0.055	0.022	-0.001	-0.015	0.004	0.026	-0.007	0.031
Oceania	0.031	0.009	0.066	0.016	0.091	0.101 [†]	0.058	0.104
Independent variables								
Physical asset specificity (PAS)		0.361 ^{***}		0.347 ^{***}		0.490 ^{***}		0.350 ^{***}
PAS ²		-0.158 [*]		-0.155 [*]		-0.270 ^{***}		-0.211 ^{**}
Human asset specificity (HAS)			0.339 ^{***}		0.546 ^{***}		0.456 ^{***}	0.302 ^{***}
HAS ²			0.027		0.059		0.072	0.019
Moderator								
Contract specificity				0.009	0.118			0.004
Trust						0.121	0.062	0.112
Interaction								
Contract specificity* PAS				0.164 [*]				0.212 ^{**}
Contract specificity* PAS ²				-0.149 [*]				-0.182 [*]
Contract specificity* HAS					0.102			-0.023
Contract specificity* HAS ²					0.078			0.121
Trust * PAS						-0.020		-0.022
Trust * PAS ²						-0.055		-0.051
Trust * HAS							0.519 ^{***}	0.483 ^{***}
Trust * HAS ²							-0.098	-0.101
Model fit								
R ²	0.104	0.244	0.263	0.276	0.360	0.409	0.349	0.552
Adj-R ²	0.051	0.189	0.209	0.207	0.311	0.370	0.307	0.402
F-value	1.970 [†]	4.324 ^{***}	4.857 ^{***}	4.402 ^{***}	8.606 ^{***}	10.558 ^{***}	8.202 ^{***}	10.990 ^{***}
Largest VIF	1.101	1.080	1.373	1.143	2.321	1.828	2.588	2.864

Note: Table entries are standardized regression coefficients (β).

Using the data collected from local suppliers for the independent variables, moderators and dependent variable.

[†] p < .10.

* p < .05.

** p < .01.

*** p < .001.

similar to the findings from the OLS model (i.e., Tables 3 and 4), suggesting that our empirical results are robust when we control for the endogenous variables.

5. Discussion

5.1. Contributions

In line with key findings, this study endeavors to make three major contributions. First, unlike De Vita et al. (2010), who showed that both PAS and HAS enhanced relationship performance in domestic settings, our study highlights the differentiated impacts of suppliers' PAS and HAS on offshore cooperation by revealing a curvilinear effect of PAS and a linearly positive effect of HAS on relationship performance in international settings. These results provide insights into the ways in which different dimensions of suppliers' asset specificity (PAS and HAS) differently influence relationship performance in the context of cross-national settings. More importantly, these results echo both Williamson and Riordan's (1985) and David and Han's (2004) calls for a comprehensive measure of the construct's multidimensional nature by showing that it is more meaningful to differentiate the effect of various types of asset specificity on relationship performance than to examine the whole effect of the total amount of asset specificity.

Second, our findings illustrate why local suppliers should always be cautious about the degree of PAS. Thus, the findings shed light on the

debate over the influence of asset specificity on firms' performance (Liu et al., 2014; Lin et al., 2012; Lui et al., 2009). Importantly, the existing literature has mostly addressed this question by adopting a single theoretical framework that focuses on either the merits or the weaknesses of AS, which may lead to contradictory findings depending on the empirical setting and specific context. By contrast, our strategy relies on a more integrative perspective and suggests that to make sense of this conundrum, the merits and weaknesses of AS must be reconciled instead of adopting a contrasting approach.

Third, the empirical results highlight the importance of an appropriate combination between asset specificity and the attributes of the interfirm governance mechanisms (contract specificity vs. trust) in strengthening offshore cooperation, thus resulting in improved relationship performance. Existing interfirm governance studies argue that the cultural and institutional differences between different countries impede the coordination effect of contracts; thus, trust plays a more important role in coordinating interfirm exchanges in cross-border transactions (Jean, 2014). However, our results show that trust is not an effective mechanism to enhance the positive effect of PAS on relationship performance. Rather, contract specificity is more effective in safeguarding local suppliers' PAS and improving the positive impact on relationship performance.

Table 5
The results of regression analysis for endogeneity test (n = 162).

Variables	Relationship performance				
	Model1	Model2	Model3	Model4	Model5
Control variables					
Supplier age	0.07	−0.09	−0.07	−0.03	−0.08
Supplier size	−0.01	0.06	0.09	0.05	−0.02
Industry type	0.02	0.08	0.01	0.06	−0.01
Offshore cooperation tenure	0.13	0.07	0.15	0.10	0.07
Eastern Region	0.05	0.02	0.01	0.03	0.09
Western Region	0.06	0.10	0.12	0.13	0.01
North America	0.02	0.01	0.02	0.02	−0.01
Europe	0.03	0.02	−0.01	−0.02	−0.03
Oceania	0.02	0.07	−0.01	0.06	0.03
η1	0.25*	0.28			0.33*
η2			0.28*	0.24*	0.41*
η1* contract specificity	−0.21	−0.30*			−0.18
η1* trust					−0.23*
η2* contract specificity					−0.01
η2* trust			−0.15	−0.18	−0.29*
Independent variables					
Physical asset specificity(PAS)	0.43***		0.35***		0.23**
PAS ²	−0.21**		0.23*		−0.17*
Human asset specificity (HAS)		0.46		0.31**	0.31***
HAS ²		−0.03		0.12	0.01
Moderators					
Contract specificity	0.03	0.11			0.09
Trust			0.09	0.06**	−0.04
Interactions					
Contract specificity* PAS	0.27***				0.21
Contract specificity* PAS ²	−0.24***				−0.18
Contract specificity* HAS		−0.03			−0.04
Contract specificity* HAS ²		0.02			0.02
Trust * PAS			0.13		0.11
Trust * PAS ²			0.11		−0.07
Trust * HAS				−0.35	0.21
Trust * HAS ²				0.02	−0.01
Model fit					
Adj-R ²	0.39	0.23	0.33	0.34	0.53
F-value	7.36***	4.07***	6.02***	6.06***	7.28***
Largest VIF	3.70	4.02	2.93	2.97	5.79

Note: Table entries are standardized regression coefficients (β). Using the data collected from local suppliers for the independent variables and moderators, and using the data collected from international buyers for the dependent variable.

* p < .05.

** p < .01.

*** p < .001.

5.2. Managerial implications

The results of this study reveal three key implications for managers. First, local suppliers should recognize that different dimensions of asset specificity have heterogeneous effects on relationship performance in offshore cooperation. It is advisable that more attention should be paid to the downsides and risks associated with PAS and that PAS should be maintained at an optimal level. By contrast, local suppliers need to accumulate HAS by constantly increasing their investments in employee training and learning to continually enhance long-term relationship performance.

Second, local supplier managers need to better realize the importance of properly aligning interfirm governance mechanisms across different dimensions of asset specificity in offshore cooperative relationships. The modeling results suggest that proper combinations between asset specificity and interfirm governance mechanisms will contribute to effectively coordinating offshore cooperation. Thus, local supplier managers should consider adopting appropriate interfirm governance mechanisms that are relevant to different dimensions of asset specificity in an integrative manner.

Third, with regard to contract specificity, it is imperative for managers to realize that it is beneficial for local suppliers to maintain a moderate degree of PAS to achieve outstanding relationship performance in the presence of detailed binding contracts. In contrast, when PAS is already at a high level, detailed provisions should be avoided because the formal governance mechanism will strengthen the negative effect of PAS on relationship performance. By comparison, the benefit of enhanced relationship performance through the interaction between HAS and trust can be derived continually regardless of the level of HAS.

5.3. Limitations and future research directions

This study also has at least two major limitations. First, while, in this study, we decomposed asset specificity into two subdimensions to explore their impacts on relationship performance in offshore cooperation exchanges, other underlying dimensions of asset specificity, such as site asset specificity and procedural asset specificity, identified by Williamson (1991) and De Vita et al. (2010), should be examined in future research. In addition, it would be interesting to investigate whether PAS is more contractible than HAS or whether the contracting hazards are higher for HAS than for PAS. Second, apart from the direct effects of PAS and HAS, there may exist strong interaction effects between the two types of asset specificities, and they should be examined in future research.

Some of the hypotheses were not statistically supported, and we provide some speculations for further investigations. We predicted an inverted U-shaped relationship between HAS and relationship performance, but a positively linear relationship was revealed. The reason may be that when local suppliers invest in personnel training and learn to serve international buyers, the accumulation of specific knowledge helps local suppliers master new skills more quickly and successfully than other firms without this type of investment (Wang et al., 2018).

We also predicted that contract specificity may strengthen the inverted U-shaped relationship between HAS and relationship performance, but this prediction was not statistically supported. HAS manifests as intangible assets that tend to be embedded in the routines and culture of the local supplier (Hoetker & Mellewigt, 2009). This makes it difficult for HAS to be clearly described, evaluated, and written into the contract as a specific provision (Dyer & Singh, 1998). Thus, lacking concrete criteria as a reference point, contract specificity may become relatively ineffective for safeguarding local suppliers' HAS.

The statistical results did not support our proposition that trust strengthens the inverted U-shaped relationship between PAS and relationship performance. The reason may be that the establishment of trust-based governance mechanisms requires capital- and time-intensive investments, which are often costly activities (Lin et al., 2012); thus, trust building with international buyers becomes less relevant for coordinating PAS when the more efficient contractual governance mechanism is available.

6. Conclusion

In this study, we examined the effects of PAS and HAS on the performance of offshore buyer–local supplier relationships in China and the moderating effects of contract specificity and trust on the relationships between them based on a dataset collected from a sample of 162 dyads composed of local suppliers and international buyers. Our results reveal an inverted U-shaped relationship between PAS and relationship performance and a positively linear relationship between HAS and relationship performance. Contract specificity is found to positively moderate the linkage between PAS and relationship performance, whereas a higher level of trust is shown to enhance HAS's contribution to improved relationship performance. Therefore, local suppliers engaging in offshore business cooperations are required to meticulously design their specific capital and human asset investment strategies coupled with relevant governance mechanisms such as

contracts and trust vis-à-vis international buyers in light of continually improving relationship performance while minimizing the risks of lock-in in the longer term.

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Appendix 2

Publication II

Zheng, X.; Larimo, J. (2014). Identifying Key Success Factors for International Joint Ventures in China: A Foreign Parent Perspective from Finnish Firms. *E+M Economics and Management*, 17(2), 106–119.

IDENTIFYING KEY SUCCESS FACTORS FOR INTERNATIONAL JOINT VENTURES IN CHINA: A FOREIGN PARENT PERSPECTIVE FROM FINNISH FIRMS

Xiaosong Zheng, Jorma Larimo

Introduction

International Joint Ventures (IJVs) have been in a central role of global expansion by several companies [64]. IJVs are formed between two or more firms with different organizational and cultural characteristics. There are several advantages related to the IJV entry mode like the possibility for the local and parent firms to exploit complementary resources, innovative capacities and core competencies (e.g. [17], [22], [35], [37], [45], [49], [52]). IJVs are superior when firms face uncertainty about the foreign market and future development or when information is inadequate [1]. Therefore IJVs are often used as a market entry approach by developed countries aiming to enter emerging markets where foreign firms usually face an uncertainty in economic and opportunistic behaviours. In spite of the high popularity of IJVs especially in emerging markets results in several studies have indicated that the goals set for the IJVs have not been reached and that there has been high rates of instability and failures in IJV operations [4], [24], [26], [57]. Thus there has been growing interest to study in more details the performance of IJVs and to study the key factors and drivers behind successful and unsuccessful IJVs.

When it comes to China IJVs have been rapidly proliferating in China in the last three decades since China adopted an open door policy to attract foreign investments in 1978. In addition to wholly foreign-owned firms, equity joint venture is a major mode of business operation [13]. According to U.S.-China

Business Council [65], Foreign Direct Investment (FDI) in China totalled \$82.7 billion by 2007 with a total of 37,888 new foreign invested firms. In recent years China has been popular among Nordic firms because of their limited domestic market and China's over 1.3 billion potential consumers together with the outstanding economic performance. However, many IJVs experience significant problems in China due to its complicated and difficult environment [8]. Therefore it is necessary to look into these problems, find solutions and identify key success factors for IJVs in China.

In the literature the research on Sino-Foreign IJVs has been clearly growing, but the results have been partly mixed and the studies have mainly focused on the IJV operations by Asian, especially Taiwan-based firms. Many studies also focused on IJVs with parent firms coming from big Western countries such as the USA. However, research focusing on IJV (and FDIs) by firms from smaller developed European economies like from Nordic countries, has been extremely limited so far. Furthermore, as in the decade award winning article of Journal of International Business Studies (JIBS) Madhok [51] argues that most existing research on IJV performance tends to focus on a few single factors such as ownership and a shift of focus to case studies to examine relational dynamics is encouraged. In this study we will use nine Finnish-Chinese IJVs to do detailed case studies to identify key factors for IJV success. Therefore this study contributes to the existing IJV literature by attempting to identify key success factors in Finnish-Chinese IJVs

through detailed case studies. The research results will have implications to academic researchers, firms, professionals and government policy makers.

This paper is organized in the following way. In the first section a literature review on determinants of IJV performance is conducted. The second section is about research method and data collection. In the third section a conceptual model is built up as a framework for case studies. Case results are discussed in the fourth section. The final section is summary and conclusions, including also implications of the study, discussion of limitations of this research, together with recommendations for future research directions.

1. Determinants of IJV Performance

One of the main challenges in evaluating IJV success is the measurement of its performance. In the literature different theories have been used to study IJV performance including transaction cost economies [25], [35], [58], agency theory [12], [36], [61], resource-based view [15], [19], [53], social exchange theory [63], knowledge-based view [16], [63], behaviour perspective [20], [31], organizational learning logic [30], [32], [49], bargaining power theory [39], [66], institutional theory [41], contingency theory [56], and fairness theory [48]. Among these theories resourced-based view and knowledge-based view have most commonly been applied in IJV performance studies. Some good literature review articles on IJV performance have been published in business and management journals [54], [60], [62], [67]. The results of these studies will be referred to later in this paper.

Before we study factors or determinants of IJV performance it will naturally come up with the question what are the proper measures of IJV performance i.e. what are the criteria to evaluate an IJV performance? Some of the IJV measures used in previous studies include satisfaction, financial indicators, survival, duration, instability, and stock-market reaction [2], [23], [38], [47]. IJV performance measures can be classified into objective and subjective measures. The use of objective measures may fail to reflect the long-term goal of IJVs [22], [45]. On the other hand, using subjective measures in evaluating IJV success will have difficulties because they may contain biased

opinions and they are generally not comparable [55]. However, e.g. Geringer and Hebert [22] have found that subjective and objective measures are highly correlated. Using a sample of UK IJVs, Glaister and Buckley [23] confirmed Geringer and Hebert's findings. Zhan and Luo [69] suggest that different IJV performance measures can be classified into two groups namely financial performance and competitive performance. Financial performance includes return on investment (ROI), return on assets (ROA), and revenue growth etc. while competitive performance includes all other measures such as sales level, market position and share, customer satisfaction, organizational reputation and product image, realization of long-term strategic goals [7]. In this study we will use a number of subjective measures to examine and compare IJV performance in China due to the limited number of cases available.

After we have taken proper IJV performance measures we can then investigate what factors or determinants will affect IJV performance? In the literature some significant factors have been identified and discussed that include control, ownership, commitment, culture, trust, etc. [14], [21], [33], [40], [44], [51], [54], [60], [62], [63], [67]. These important factors are briefly described in the following.

Control can be defined as the management process by which a parent's interests are protected. According to Geringer and Hebert [21], control refers to the process whereby one party influences, to different degrees, the behaviour and output of another party through the use of power, authority, and a wide range of bureaucratic, cultural, and informal mechanisms. These of control are widely regarded as critical for IJV performance [10], [21], [39], [50]. Through control a partner influences the joint venture to behave in ways that lead to attainment of the organization's objectives [9]. The ownership structure is a means of materializing the management control which is determined by the partners' bargaining power [40]. The share ownership structure of a joint venture cannot be determined unilaterally, but is usually an outcome of negotiations between the investing country and the host country. The greater the power one partner has, the higher the share of ownership the partner can obtain [24]. Commitment refers to the extent to which the partners are bound to the stability and

success of the relationship [4]. This involves the assurance of commitment before embarking on a joint venture with a partner and the encouragement of commitment by the partner throughout the venture's life span. Mutual commitment creates a feeling of shared identity [43] and facilitates the development of mutual trust and voluntary cooperation between partner firms. Therefore mutual commitment reduces conflicts and increases cooperation between IJV partners and will also increase the feeling of fairness and stabilizes relationships between partners. Mutual commitment improves IJV performance both directly through its effect on aligning interest and indirectly through its effect on minimizing conflict. Trust between partners has also been revealed as an important factor that contributes to the success of IJVs [14], [33], [51] and it can be easily managed to facilitate the achievement of IJV objectives [3], [5].

Finally, culture is bound around IJVs all the time and some researchers argue that culture does affect IJV performance [41]. Culture has been defined by Hofstede [27] as "the collective programming of the mind which distinguishes the members of one human group from another". Hofstede identified originally four cultural dimensions (i.e. Power Distance, Uncertainty Avoidance, Individualism-Collectivism, and Masculinity-Femininity) and later on a fifth dimension - Long-Term Orientation – especially based on the Asian cultures [28]. The impact of culture on IJV performance has been the most extensively examined variable in previous research [38], [62]. Among the five cultural dimensions Power Distance and Individualism are particularly different between nations [11]. Lu and Lee [44] found that Power Distance is positively related to the satisfaction of senior managers in IJVs and Individualism is negatively related to the satisfaction of senior managers in IJVs. Because this study focuses on IJVs from only one single Western European country to China we cannot focus in more details on the impact of cultural distance on IJV performance. However, it can be stated that Finland and China are relatively far away from each other along all five dimensions [29].

In addition to the above important IJV performance determinants many others are also worth looking into. For this purpose we summarized all main potential IJV performance determinants and they are presented in the following Table 1.

We think that research on IJV performance determinants theoretically can be divided into three stages. The first stage of research is to examine IJV background information such as cultural, economic, political and technological dimensions from all partners particularly for the local partner or target partner. These factors mostly represent macro level or environmental factors in the local environment where IJVs are operated. In Table 1 these environmental factors include culture, economy, government policy, technology, infrastructure, labour, market potential, legal system, quality of life. Each factor is further explained in more detail. For example legal system factor means how efficient the local government can protect Intellectual Property as nowadays many high tech foreign firms are expanding east to China. Legal system also concerns government regulations on IJVs and the stability of these regulations. Quality of life factor includes cost of living in the target country, safety and social security system in the country. These issues may influence the establishment and operation of IJVs. Countries having poor quality of life tend to accept more FDIs and their bargaining power in IJVs tends to be weak.

The second stage for research on IJV performance determinants is to look situational factors at IJV formation stage. These situational factors reflect factual data from all partners at the time of IJV establishment. In Table 1 these factors include motivation of entry, firm size, partner selection, IJV experience, resource, time of entry, ownership structure, sales orientation, and long-term focus. For example resource can be divided to capital and non-capital resources. The resource factor usually determines ownership structure which is a well proven factor that will significantly affect IJV performance. Timing of entry may also influence IJV performance [70]. Foreign companies entering a target market earlier usually have first comer advantages over latecomers.

The third stage for research on IJV performance determinants is to examine factors related to IJV operation stage. In Table 1 we have commitment, bargaining power, control, trust, justice, conflict, conflict resolution, cooperation, and age of the IJV. These factors are well represented in the literature and they are classified further in explaining their meanings. However, research on factors such

Tab. 1: An overview of potential determinants of IJV performance

Determinants of IJV Performance					
1. IJV Local Environment		2. IJV Formation Stage		3. IJV Operation Stage	
Determinants/Drivers	Classification/Explanation	Determinants/Drivers	Classification/Explanation	Determinants/Drivers	Classification/Explanation
Culture	Organizational culture, national culture, cultural sensitivity	Motivation of entry	Motivation to enter the specific country, motivations to establish IJVs from both foreign and local partners' sides, goal congruity	Commitment	Resources commitment, psychological commitment, level of commitment
Economy	Local country GDP, growth rate of GDP, economic policies	Firm size	Foreign parent firm size, local partner firm size	Bargaining power	Resource-based power, context-based power
Government policy	Stability of government policies, cooperation and efficiency of local government	Partner selection	How to find a local partner? How to evaluate and select a local partner?	Control	Strategic control, operational control, structure control, output control, process control, social control
Technology	Technology available, technology and knowledge transfer	IJV experience	Prior FDI and IJV experiences both in the local country and internationally	Trust	Interpartner trust, interpersonal trust, trust between partners and local and foreign governments.
Infrastructure	Logistics and transportation system, telecommunication capacity	Resource	Capital resources, non-capital resources	Justice	Distributive justice, procedure justice, interactional justice
Labor	Labor skills, labor availability, labor attitude, wage level	Timing of entry	When to establish IJVs affects IJV performance, early entry vs. late entry	Conflict	Task conflict, relationship conflict, conflict resolution
Market potential	Market size, market type, local competition level, consumer confidence level	Ownership structure	Percentage of share of ownership, equity and non-equity share of ownership	Conflict resolution	Joint problem solving, forcing, domination, compromising
Legal system	IP protection, local government regulations and legal protection	Sales orientation	Sales directed to a target country or countries	Cooperation	Cooperation between partners, cooperation between partners and local and foreign governments
Quality of life	cost of living, safety and social security system	Long-term focus	Intended duration of IJVs, short-term vs. long-term focus	Age of the IJV	Age of the IJV unit, age of partner relationships

Source: own

as justice is quite new and it deserves further research. Age of the IJV unit may also influence the IJV performance. Units having operated longer have reached the stability in operation and partner relationships thus may lead to better performance.

Table 1 gives a concise summary trying to capture all major IJV performance determinants. The table is built from research results in the literature as well as our own research. In a later section we will develop a concept model based on the determinants summarized in Table 1 to carry out case studies.

2. Research Method and Data Collection

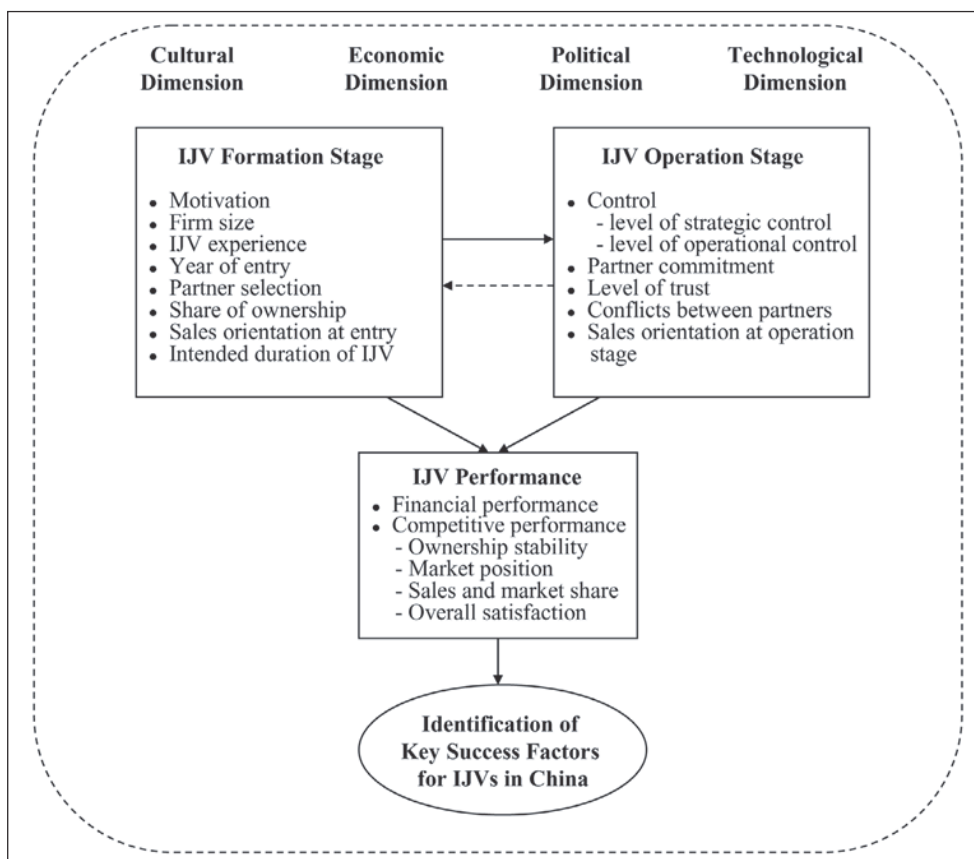
This paper aims to identify key success factors for IJVs in China by using nine Finnish-Chinese IJVs operating in Mainland China. For this purpose a comparative case study research method is used. The cases are selected from a more extensive study focusing on the IJV behaviour, strategies and performance of Finnish firms made in late 2006 and early 2007. In this study we will examine the performance and key success factors of IJVs in China. Based on the examination and evaluation of the key factors a concept model will be constructed to

systematically investigate the key determinants of IJV performance in China. Case study research method is also used for exploratory theory development and validation [68]. Case study can enable researchers to generate a rich understanding of the research question from a small number of situations while using a range of data collection methods [18].

The nine IJVs were established during 1994–2005 in China. Two of the nine IJVs had as a minority shareholder also another Finnish partner (a financing organization agreed to participate to ownership in a short term). Furthermore, in three IJVs there were two Chinese partners whereas the rest have only one Chinese partner. Two of the cases had the first manufacturing FDIs by the Finnish company and five of the

cases had first IJVs by the companies. The Finnish equity share is between 10–90%, thus fulfilling the traditional JV requirement for share. Some researchers regard only 50-50% ventures as the real IJVs. There was only one IJV of this kind among the nine cases and also in general the 50-50% IJVs seem to be very rare among IJVs by Finnish companies [38]. From the eight other IJVs three were originally minority and five majority owned by the Finnish partners. The motives establishing the IJVs were to increase profits and market share as well as lower production and sourcing costs [34]. Except in one case the IJVs were clearly established to last for longer time period, in several cases at least ten years.

Fig. 1: A concept model for identifying key IJV performance determinants



Source: own elaboration

3. The Concept Model Development

In order to systematically study the key determinants of IJV performance, we developed a conceptual model to investigate determinants of performance in the nine Finnish-Chinese IJVs. The model is illustrated in the following Figure 1. Those on top of the model represent IJV local environmental factors and they are expressed as cultural, economic, political and technological dimensions. These are macro level factors rooted in the local parent country that will affect IJV performance. Next we identified a few most significant IJV performance

determinants at IJV formation stage and IJV operation stage respectively. In Table 1, there is a more complete list of determinants at each stage. However, in practice we are not able to examine and test all factors and instead we have to select a few most important factors to test their influence on IJV performance [59]. It would not be feasible to test all factors in small scale case studies [6]. Below IJV formation and IJV operation stages, is the IJV performance. In this study we use subjective performance measures such as financial performance (ROI), ownership stability, market position, sales and

Tab. 2: Results of key determinants at IJV formation stage

	CASES								
	A	B	C	D	E	F	G	H	I
Size of the Finnish firm at the time of entry (Meur)	240	2,314	25	3	237	99	2357	2478	20
Field of industry	Industrial product	Industrial product	Industrial product	Industrial product	Industrial product	Industrial product	Industrial product	Industrial product	Industrial product
FDI experience	3	92	1	1	3	5	65	67	2
IJV experience	1	10 or more	none	none	none	none	5-9	2-4	none
Timing of entry	2001	1999	1995	1994	2003	1999	2003	2005	2002
Establishment mode	Greenfield	Greenfield	Greenfield	Greenfield	Acquisition	Greenfield	Acquisition	Greenfield	Greenfield
Earlier TC experience	none	exporting	other operations	no prior activity	a wholly-owned manufacturing unit	exporting	licensing agreement	Licensing agreement, exporting, wholly-owned manufacturing unit, manufacturing JV, other operations	exporting, sales subsidiary
Earlier partner experience	competitor	no prior relationship	no prior relationship	no prior relationship	no prior relationship	a licensing partner	competitor	competitor	no prior relationship
Partner size symmetry	company bigger 11-49% than partner	company at least 50% bigger than partner	partners same sized (+/- 10%)	company at least 50% smaller than partner	company at least 50% bigger than partner	company at least 50% bigger than partner	company at least 50% smaller than partner	company at least 50% bigger than partner	n.a.
Main motivation	Earn profit, Increase market share, Economies of scale	Earn profit, Increase market share, Achieve rapid market entry, Access to local distribution channel	Earn profit, Develop base for low cost sourcing,	Increase market share	Earn profit, Access to local marketing expertise, Achieve economies of scale, Achieve rapid market entry, Access to local distribution channel	Earn profit, Increase market share, Establish a base to access other countries	Earn profit, Increase market share	Earn profit, Increase market share, Develop base for low cost sourcing, Achieve Quanxi-relations	Lower production costs
Sales orientation of the IJV at the entry stage	75-100% of the total sales directed to the target country	75-100% of the total sales directed to the target country	0-4% of the total sales directed to the target country	75-100% of the total sales directed to the target country	75-100% of the total sales directed to the target country	0-4% of the total sales directed to the target country	5-24% of the total sales directed to the target country	75-100% of the total sales directed to the target country	100% of the total sales directed to the target country
Finnish share of ownership at entry	51%	49%	25%	25%	85%	60%	55%	50%	55%
Intended duration of the IJV	indefinite	more than 10 years	more than 10 years	more than 10 years	2-5 years	more than 10 years	more than 10 years	indefinite	5-10 years

Source: own

market share, and overall satisfaction. The last part in the concept model is the conclusion of key success factors or determinants of IJV performance in China. As we mentioned earlier, these key success factors represent a Finnish parent perspective.

4. Case Result

In this study we focus on studying the factors associated with IJV formation and IJV operation stages. The results on these factors from case studies are presented in Table 2 and Table 3.

In Table 2, the nine IJV companies are numbered alphabetically from A to I. The left column contains a few important factors at IJV formation stage such as Finnish firm size (in terms of value of assets), FDI and IJV expe-

riences, year of investment and investment type, earlier trading company and partner experiences, partner size symmetry, main motivation and sales orientation at entry stage, Finnish percentage share of ownership at entry, and intended duration of the IJV.

In Table 3, results of key determinants at IJV operation stage are summarized. These determinants represent important factors associated with IJV performance in actual daily operations. These factors have been studied widely in the literature. Therefore we also emphasize these factors in this study. The control factor is divided into strategic control and operational control. Other important factors include control commitment, trust, conflicts, sales orientation at operation stage, and total sales.

Tab. 3: Results of key determinants at IJV operation stage

	CASES								
	A	B	C	D	E	F	G	H	I
Level of strategic control	High control over major decisions of the JV	Relatively high control over major decisions of the JV	High control over major decisions of the JV	High control over major decisions of the JV	High control over major decisions of the JV	Relatively high control over major decisions of the JV	Relatively high control over major decisions of the JV	Medium level of control over major decisions of the JV	High control over major decisions of the JV
Level of operational control	Relatively low control over daily activities of the JV	Relatively low control over daily activities of the JV	High control over daily activities of the JV	Medium level of control over daily activities of the JV	High control over daily activities of the JV	Medium level of control over daily activities of the JV	Relatively low control over daily activities of the JV	Relatively high control over daily activities of the JV	High control over daily activities of the JV
Partner commitment	Partners are relatively strongly committed to the JV operation	Partners have medium level of commitment to the JV operation	Partners have low commitment to the JV operation	Partners have medium level of commitment to the JV operation	Partners are relatively strongly committed to the JV operation	Partners have low commitment to the JV operation	Partners are relatively strongly committed to the JV operation	Partners are strongly committed to the JV operation	Partners are strongly committed to the JV operation
Level of trust	Medium level of trust	Medium level of trust	High level of trust	Relatively low level of trust	Relatively low level of trust	Low level of trust	Medium level of trust	Relatively high level of trust	High level of trust
Conflicts between partners	Medium level of conflicts between partners	Relatively high level of conflicts between partners	Relatively low level of conflicts between partners	Medium level of conflicts between partners	Low level of conflicts between partners	Low level of conflicts between partners	Medium level of conflicts between partners	Relatively low level of conflicts between partners	Low level of conflicts between partners
Sales orientation at operation stage	25-49% of the total sales directed to the target country	75-100% of the total sales directed to the target country	5-24% of the total sales directed to the target country	75-100% of the total sales directed to the target country	5-24% of the total sales directed to the target country	50-74% of the total sales directed to the target country	5-24% of the total sales directed to the target country	75-100% of the total sales directed to the target country	100% of the total sales directed to the target country
Total sales (Meur)	10-49	less than 10	less than 10	less than 10	10-49	less than 10	10-49	n.a.	n.a.

Source: own

Tab. 4: Results of IJV performance

	CASES								
	A	B	C	D	E	F	G	H	I
Financial performance	Relatively high satisfaction	Relatively high satisfaction	Medium level of satisfaction	Relatively high satisfaction	Relatively high satisfaction	Relatively low satisfaction	Relatively high satisfaction	Medium level of satisfaction	Medium level of satisfaction
Market position	smaller than 5 of the biggest firms in the market	Market leader	smaller than 5 of the biggest firms in the market	smaller than 5 of the biggest firms in the market	Within 2-5 biggest firms	smaller than 5 of the biggest firms in the market	Market leader	Within 2-5 biggest firms	n.a.
Sales level	Relatively high satisfaction on level of sales	Relatively high satisfaction on level of sales	Medium level of satisfaction on level of sales	High level of satisfaction on level of sales	Relatively high satisfaction on level of sales	Medium level of satisfaction on level of sales	Relatively high satisfaction on level of sales	Relatively high satisfaction on level of sales	Medium level of satisfaction on level of sales
Market share	Medium level of satisfaction on market share	Medium level of satisfaction on market share	Medium level of satisfaction on market share	High level of satisfaction on market share	High level of satisfaction on market share	Medium level of satisfaction on market share	Relatively high satisfaction on market share	Medium level of satisfaction on market share	Medium level of satisfaction on market share
Overall satisfaction	Relatively high satisfaction	Relatively high satisfaction	Relatively high satisfaction	Medium level of satisfaction	Relatively high satisfaction	Medium level of satisfaction	Medium level of satisfaction	Medium level of satisfaction	Medium level of satisfaction

Source: own

Tab. 5: Ranking of IJV performance

	CASES								
	A	B	C	D	E	F	G	H	I
Financial performance	3	3	1	3	3	0	3	1	1
Market position	1	5	1	1	3	1	5	3	n.a.
Sales level	3	3	1	5	3	1	3	3	1
Market share	1	1	1	5	5	1	3	1	1
Overall satisfaction	3	3	3	1	3	1	1	1	1
Overall ranking	11	15	7	15	17	4	15	9	n.a.

Source: own

The results of IJV performance are presented in Table 4. Results from all nine case studies from company A to company I have been summarized. Table 4 contains subjective IJV performance measures such as financial performance, market position, sales level, market share, and overall satisfaction. The results of these subjective measures represent a Finnish parent perspective i.e. they were obtained from Finnish managers in the IJVs. In Table 5 a numerical ranking is presented by assigning different weights (on a 0-1-3-5 scale) to individual performance results. For example in financial performance measure high satisfaction is assigned a weight 5 and relatively high satisfaction is assigned with 3. Medium level of satisfaction is given a weight 1 and low level of satisfaction will be given 0. Other performance results are assigned weights in a similar way. By simply adding up all weights we get the

overall ranking for each case. In Table 5 case E has the highest rank 17. Cases B, D and G have the second rank with a number 15. Case F has the worst rank.

For the analysis of the results we will start from results at IJV formation stage. From Table 2 we can see that the size of the Finnish partners in IJVs vary considerably. IJVs B, G, and H (G and H were established by the same Finnish firm) were established by larger Finnish multinational corporations (MNCs) while other Finnish companies are small and medium enterprises (SMEs). The Finnish MNCs have relatively more FDI, IJV and TC experience than SMEs and they all have a long term focus (intended duration of the IJV). These MNCs are also significantly larger than their Chinese partners. They have a number of motivations to enter China and they have a higher ownership share than their Chinese partners (majority owned

IJVs). As a result in Table 4 both IJVs B and G were evaluated to have excellent financial performance and the two companies showed relatively high satisfaction. Company H showed a medium level of satisfaction. All of them had a leading market position partly due to its large size scale effect. All of them also showed high level of satisfaction with the level of sales and market share. For overall satisfaction company B showed relatively high satisfaction while companies G and H showed medium level of satisfaction. In table 5 companies B and G have the same weight 15 while company H has a weight 9. They all showed relatively good performance. We argue that all performance measures should be analyzed and combined to give a more solid result. Therefore by the combination of all the performance measures we think FDI experience is an important factor in IJV performance. For the factor timing of entry, four companies had investment after year 2000 i.e. companies A, E, G(H) and I. Among them companies A, E, G showed relatively high satisfaction on financial performance and companies H and I showed medium level of satisfaction. They also showed either relatively high satisfaction or medium level satisfaction on measures of sales, market share, and overall satisfaction. From this analysis we can also say timing of entry also affects IJV performance and early movers tend to outperform latecomers in a foreign market because their operations tend to be more stable and partners may know each other better after a few years leading to better performance. All other factors such as establishment mode and main motivation etc. do not show a consistent result.

Factors at IJV operation stage also affect performance. For partner commitment, companies C and F have low partner commitment and they have the worst ranks in Table 5 with an overall ranking number 7 and 4 respectively. Sales and market share for both companies also showed medium level of satisfaction. From the analysis we can conclude low partner commitment tends to lead to low level of satisfaction in IJV performance. All other factors at this stage including strategic control, operational control, trust, conflicts, and sales orientation, didn't show a consistent result.

Company E is an exception in terms of intended duration of IJV and it is planned for only 2–5 years. Timing of entry was 2003 and

the investment type was acquisition. In this case Finnish parent had the highest ownership percentage at formation stage (85%) among all nine cases. At IJV operation stage Finnish parent in company E had high strategic and operational controls and strong mutual commitment. Conflicts between partners were low and only 5–24% of the total sales were directed to the target country. In terms of performance the Finnish parent showed high level of satisfaction on all performance measures. In this case the Finnish parent company is a medium sized company and had the investment in China in 2003 and the commitment is strong from both partners. Therefore the two key factors i.e. timing of entry and partner commitment are still valid in this case.

From the above case studies and analyses we find that FDI experience and timing of entry are the key success factors at IJV formation stage and partner commitment is the key success factor at IJV operation stage. Other factors either did not affect IJV performance or did not show a consistent result.

Conclusions

IJVs are commonly used to enter the Chinese market and IJVs have received a great academic and managerial interest. Accordingly, there is an increasing interest to study the key factors or determinants underlying IJV performance. However, in the existing IJV performance research the foreign parent firms are mainly from major developed countries such as USA. There is very little research on firms from small developed European countries such as Finland. This paper extends current IJV performance research by studying nine Finnish-Chinese IJVs operating in Mainland China. In the literature review section of this paper an overview of IJV theories, determinants of IJV performance and the pros and cons of objective and subjective IJV performance measures, were made. Based on the literature review and our ongoing research an overview of potential determinants of IJV performance were presented grouped into three main categories: IJV local environment, IJV formation stage, and IJV operation stage. A conceptual model for the investigation of IJV performance determinants was presented. The empirical part of the paper consisted of nine Finnish-Chinese IJV case studies. The results

show that FDI experience and timing of entry (age of IJV unit) are the key success factors at IJV formation stage while partner commitment is the key factor at IJV operation stage. This implies that these factors are crucial to IJV success and should be paid special attention to in the formation of IJVs and in the operation process thereafter. The results support some of the earlier studies [46], [4], [43] which argue that FDI(IJV) experience, timing of entry and mutual commitment are the key determinants of IJV performance. All other factors are either associated with the identified key factors or they didn't show a consistent result.

As usual, there are some limitations in this research. First we only managed to have nine cases and they are not enough for more extensive generalisations. Secondly, all the cases were Finnish-Chinese IJVs, thus one has to be cautious with generalisations of the results to IJVs established by firms from other smaller developed economies in China. Thirdly, there might be some tradeoffs between the various factors or determinants of IJV performance. Therefore future research may include more Finnish-Chinese IJVs to allow for a quantitative analysis of these factors on IJV performance. Special attention should be paid to the possible tradeoffs between these factors. Moreover, As Madhok [51] suggests in the decade award winning article of *Journal of International Business Studies*, current research trend also calls for a shift of focus from separate factors such as ownership to relational dynamics in IJV performance. Therefore future research directions can also include more embedded case studies to reveal interfirm or interpartner dynamics that might be fundamental factors underlying successful IJV performance. Furthermore, the future studies should analyze IJVs in China established by firms from other smaller developed European economies like from other Nordic countries and e.g. from Austria or from Belgium or Greece.

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Abstract

IDENTIFYING KEY SUCCESS FACTORS FOR INTERNATIONAL JOINT VENTURES IN CHINA: A FOREIGN PARENT PERSPECTIVE FROM FINNISH FIRMS**Xiaosong Zheng, Jorma Larimo**

International Joint Venture (IJV) has been one of the main foreign market entry approaches in the last decade and this is particularly true for entry to the huge Chinese market. Although IJVs have been a very commonly used entry form many studies have indicated that the IJVs have not reached the goals set for them or they have clearly failed. Recently there has been also a growing interest to examine the performance and determinants of successful IJVs in China from major developed countries. The studies have so far mainly focused on IJVs where the foreign partners are either from Asian countries or from big western economies like from the USA whereas research focused on IJVs established by firms from small developed European economies like from various Nordic countries has been extremely limited. This paper tries to shed some light on this gap by analyzing the performance and key success factors of Finnish-Chinese IJVs from a Finnish parent perspective. In the paper a conceptual model to examine key IJV performance determinants is first built up and then we apply this model in the analysis of a few Finnish-Chinese IJVs. The results of the study show that IJV performance depends on the measure of the performance. Focusing on management evaluation of performance the FDI experience and timing of entry are found to be the key success factors at IJV formation stage while partner commitment is the key success factor at IJV operation stage. At the end of the paper, conclusions are made and limitations are discussed together with an outline of future research directions.

Key Words: Success factors, IJV, performance, China, Finland.

JEL Classification: M16, M31.

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Appendix 3

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FACTORS INFLUENCING LOCATION SELECTION IN INWARD FOREIGN DIRECT INVESTMENT TO CHINA

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Introduction

Nowadays multinational corporations (MNCs) pay more attention to investments across nations, in pace with the trend of globalization and expanding capitalization. Foreign Direct Investment (FDI) proves to be one of the major economic phenomena. In fact, the emergence of FDI is the result of global economic development, as well as the global strategy for enlarging market share and seeking for more developments. It is encouraging for MNCs from developed countries to invest in foreign countries and operate multinationally, ensuring the sustainability of its domestic economy and core competencies (Žilinskė, 2010). In addition, foreign investments stimulate the growth of the local economy. As for China, it is the largest developing country which maintains a high rate of economic growth and it plays an important role in the world's economy, particularly after joining WTO in 2001. China has been attracting FDI since 1979. Based on the data from Department of Commerce, China has used 92,395 billion US dollars throughout 2008, ranking first in its duration of 17 years (National Statistics, 2011).

As a consequence, FDI provides cash for economic construction which enhances foreign trade, bringing in high technologies and improving employment situation. However, provincial governments attempt to enlarge FDI scale through different types of preferential policies. Meanwhile, the disequilibrium of FDI in different regions causes the disparity of income and employment among western regions, eastern regions and mid-China regions. Eventually, the imbalance of FDI influences the overall development of China's economy. This paper will study and analyse the issues of the preference of eastern regions, influencing factors of location selection and how to attract FDI by using own competitive advantages and privileges.

One major concern for investment is the selection of location which might determine the success or failure of the investment (e.g. Korbin, 1976; Bagchi-Sen and Wheeler, 1989; McNaughton, 1998; Tatoglu and Glaister, 1998; Qian et al., 2002). The study of foreign companies' location choice indicates the concerning factors and the regular pattern and the trend of FDI inflows. At the same time Chinese government could alter strategy for drawing FDI, adjusting according to present conditions and narrowing the disparity of eastern and western regions. This paper studies location selection in FDIs by combining theories and real case studies. First, Chinese domestic and overseas empirical studies on FDI location are reviewed. Secondly, qualitative analysis of influencing factors when selecting locations is conducted. It is then followed by a detailed case study to find out the significant influencing factors. Finally, suggestions and conclusions are made.

Literature Review

In 1976, British economist Dunning brought forward the Eclectic Theory of International Production, attempting to explain the determinants of MNCs' investments abroad (Dunning, 1980). The core content is the OIL model, indicating that if MNCs plan to invest in foreign countries, ownership advantage, internalization advantage and location advantage are the essential advantages. The advantage of production elements in host countries should be taken full consideration when choosing FDI location and funds ought to be applied in the countries and districts with location advantages. Moreover, the theory points out the selection rules of technology transfer, exporting, and FDI. Yeon (1992) proposed the Global Location Theory. Since globalization and the corresponding reform of production mode shaken the inadaptability of traditional location theory, it is recommended that the scope of location should be spread globally. They summarized the influencing factors of location selection as (1) production factors, including basic production factors and advanced factors; (2) market value factors, containing market capacity, market potential and market differentiation; (3) associated industry factors, referring to the level of relative industries' maturity; (4) factors of strategy and organization; (5) environmental and social factors, consisting of policies and cultures. During location selection it is suggested to determine the host country and then to ascertain the location problem. Qiu and Zhao (2006) studied the interaction between FDI and local government and drew a conclusion that at different developing stages of FDI, there are distinguished results impacted by two government influencing approaches. At the early stage, foreign corporations focus on short-term returns hence preferential policies determine the investing location. However, as the scale of investment enlarges the ratio of net benefit by preferential policies in total investment becomes small, so the reputation of local government is paid more attention when making long-term investments.

Braunerhjelm and Svensson (1996) analysed the features in host countries in influencing FDI, combining data from Swedish multinational corporations investing in 18 countries. As a consequence, agglomeration economies elements, market volume, experienced labour supply and early exporting mode impact selecting location for overseas production. Scaperlanda and Mauer (1969) have done some research on how international direct investments flow to other countries. They statistically tested the importance of influencing factors and conclude that only market volume has significant effect on the outflow of direct investments. Coughlin et al. (1991) observed the location selection from foreign countries investing in America based on a conditional logic model. The result indicates that potential demand, agglomeration economies, features of labour market, transport facilities and tax determine the level of attracting FDI in a certain state. It is more attractive for foreign investments in regions of high income per capita and full of manufacturers. Yeon (1992) studied the determinants of Korean direct investment outflows. He figured out FDI inflows to developed countries for the purpose of avoiding non-tariff barriers, while inflowing to developing countries aiming at making use of cost advantage. Schroath et al. (1993) observed that FDI mainly concentrates on eastern coastal regions and metropolis, meanwhile the distribution of FDI links closely to social and relative relationship between investing countries and host countries. Chen et al. (1995) revealed the evolution of China's policies towards FDI after 1978 by analysing the quantity, origin, geographic distribution and composition of FDI. FDI is positively related to economic growth and

the investment in the fixed assets. FDI enhances domestic manufacturers' competencies; in the meanwhile, FDI enlarges the income gap between coastal regions and interior areas. Ramasamy and Viana (1995) pointed out two primary reasons for foreign investment inflows. First, China has the advantage of cheaper labour cost and raw material cost compared to other Asian countries. Secondly, the market in China is full of potential. Therefore, China is generally attracting FDI inflows.

Research Method

In this paper the case study research method is used to study FDI location selection in China. First current FDI situation in China is presented, followed by a discussion of various factors that influence FDI location selection. Then a detailed case study is conducted to find out and validate the most important factors in FDI location selection.

Current FDI Situation in China

Since the open-door policy was promulgated in 1978, China has achieved magnificent economic growth by attracting and using foreign investments. The path of FDI in China could be divided into five stages: infancy stage (1979-1986), sustainable development stage (1987-1991), rapid development stage (1992-1995), adjusting and stable development stage (1996-2001) and speedy and stable development stage (2002 till now).

After China joined WTO in 2001, more policies, laws and regulations for foreign capital have been re-planned and revised. As a result, an increasing number of foreign corporations invested in China. In 2008, the total sum of FDI in China is ranked first in the world and the actual usage of foreign investment is \$952.53 billion, as shown in Table 1.

The division of Chinese economic zones was formed in recent years. According to "suggestions for instituting the 7th five-year plan of national economy and social development" from the central government, China is divided into three economic regions – western, eastern and mid-China. Eastern regions consist of provinces of Beijing, Tianjin, Liaoning, Shanghai, Hebei, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Guangxi, and Hainan. Mid-China regions are made up of Shanxi, Inner Mongolia, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, and Hunan. Western regions include Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shanxi, Gansu, Qinghai, Ningxia, and Xinjiang.

Influencing Factors for FDI Location Selection in China

FDIs vary in different regions, leading to the issue of which factors affect foreign corporations when selecting location. This paper emphasizes on investigation of influencing factors of foreign investors in choosing location in order to formulate corresponding policies and narrow down the disparity between middle and western districts and eastern regions. Based on domestic and foreign empirical research, this paper summarizes the influencing factors of FDI as (1) market factor; (2) infrastructure factor; (3) labour factor; (4) agglomeration effect factor and (5) policy and culture factor.

Table 1. Utilization of Foreign Capital in China (1979-2008)

Year	Contractual foreign investments utilized				Foreign investments actually utilized		
	Aggregate amount (in \$100 million)	FDI			Aggregate amount (in \$100 million)	FDI	
		Projects	Amount (in \$100 million)	Proportion (%)		Amount (in \$100 million)	Proportion (%)
1979-1984	281.26	3724	97.5	34.7	181.87	41.04	226
1985	102.69	3073	63.33	61.7	47.60	19.56	41.1
1986	122.33	1498	33.30	27.2	76.28	22.44	29.4
1987	121.36	2233	37.09	30.6	84.52	23.14	27.4
1988	160.04	5945	52.97	33.1	102.26	31.94	31.2
1989	114.79	5779	56.00	48.8	100.60	33.92	33.7
1990	120.86	7273	65.96	54.6	102.89	34.87	33.9
1991	195.83	12978	119.77	61.2	115.54	43.66	37.8
1992	694.39	48764	581.24	83.7	192.03	110.07	57.3
1993	1232.73	83437	1114.36	90.4	389.60	275.15	70.6
1994	937.56	47549	826.80	88.2	432.13	337.67	78.1
1995	1032.05	37011	912.82	88.4	481.33	375.21	78.0
1996	816.10	24556	732.76	89.8	548.05	417.25	76.1
1997	610.58	21001	510.03	83.5	644.08	452.57	70.3
1998	632.01	19799	521.02	82.4	585.57	454.63	77.6
1999	520.09	16918	412.23	79.3	526.59	403.19	76.6
2000	711.30	22347	623.80	87.7	593.56	407.15	68.6
2001	719.76	26140	691.95	96.1	496.72	468.78	94.4
2002	847.51	34171	827.68	97.7	550.11	527.43	95.9
2003	1169.01	41081	1150.69	98.4	561.40	535.05	95.3
2004	1565.88	43664	1534.79	98.0	640.72	606.3	94.6
2005	1925.93	44001	1890.65	98.2	638.05	603.25	94.5
2006	1982.16	41473	1937.27	97.7	670.76	630.21	94.0
2007	—	37871	—	—	783.39	747.68	95.4
2008	—	27514	—	—	952.53	923.95	97.0

Source: China Statistical Yearbook 2008

Market Factor

Market is the primary concern for MNCs in selecting location of direct investment and it includes market scale and market potential; likewise, it is the major reason for developing countries attracting most of FDI. Corporations, in most cases, are capable of reducing costs by improving operational methods to increase revenue if they invest in the right market because larger scale of market comes closer to consumers. In addition, market information could be obtained promptly. Economic benefits will be raised by reducing transportation cost and availing of instant market information. Population is considered as an indicator of a country or region's potential since population is positively related to demand of consumption. Consequently, foreign

companies prefer to site their factories next to numerous consumers, not only attracting more labour forces, but also decreasing the transportation costs. China's huge market is attracting much more FDI than ever, meanwhile, the rapid growth rate of economy appeals to foreign investments. However, market factors, to some extent, generate the imbalance of FDI in different regions. Market scale is usually measured by GDP based on China's real situation. GDP scales of eastern, middle and western regions are in positive relationship with FDIs. FDI in eastern regions occupies 85% FDI in total while its GDP exceeds 50% of total GDP. Moreover, population distribution varies, for instance, eastern regions gather the majority of population and maintain high population density while in western districts population density is much smaller due to the drizzle of economy. These factors stimulate foreign investors to invest in eastern China where target market is near and the economy is relatively prosperous with higher income level and bigger density of population.

Infrastructure Factor

Infrastructures are comprised of energy supply, roadway transportation, communication, information network, water and electricity supply. Favourable infrastructures are able to provide corporations for overall services. Therefore, the cost of collecting transportation and other information is cut down and gains on investments are raised. Foreign investors are intensely attracted by complete infrastructures. Hence infrastructures play a key role in FDI location selection. Some research proves that infrastructure' condition is in positive correlation with local economic growth rate and FDI distribution. More specifically, prosperous regions provide sufficient funds for constructing infrastructures. Additionally, the enhancement of infrastructure is more appealing to foreign corporations, which further pushing forward the growth of the local economy.

Furthermore, the construction of transportation infrastructure is one of major determinants for location selection. These include the transportation infrastructure, less goods flowing costs and higher production efficiency. As a consequence, cost of manufacturing is decreased and competency is raised owing to the perfect transportation infrastructure. In addition, advanced communication infrastructure accelerates the exchange of market information and cut down expenditures of collecting information. For investors' concern, they can master tiny change of investing environment in time, leading to the tight control of their investment projects.

Eastern regions in China, like Shanghai, Jiangsu Province and Zhejiang Province, the infrastructure of transportation, information and water and electricity supply are relatively complete, ensuring corporations' production operations and promoting the efficiency of internal operations. Based on the advantages, eastern regions attract the majority of FDIs. On the contrary, western China's infrastructures and geographic positions restrict their ability to attract FDI and promote economy. During the early stage of opening to the outside, the Chinese central government chose Shenzhen, Zhuhai, Xiamen, Fuzhou, Ningbo and some other coastal cities as economic special zones, guaranteeing their rapid growth of infrastructure construction and economy.

Freight Ton-kilometres, as an indicator of a district's transportation ability, refers to the volume of freight transportation by all kinds of conveyances, including railway transport, road transport and waterway transport, calculated in compound unit of

weight and transport distance after finishing the whole transportation process. Figure 1 describes turnover volume of freight transport in eastern, middle, and western China from 2000 to 2006. During these 7 years, turnover volume in eastern China exceeded far from middle and western China and climbed up at a rapid rate. Evidently, the disparity of transport capacity between eastern and Middle and western regions deepened the gap of FDI inflows, particularly in western regions.

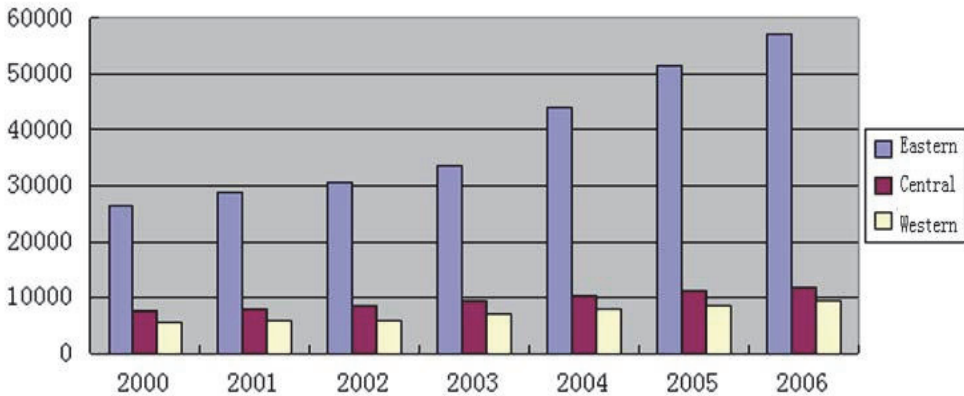


Figure 1. Comparison of Freight Ton-kilometres in Three Major Regions (2000-2006) (100 million Ton-kilometres)

Source: China Statistical Yearbook 2008

Telecommunications and postal services are also considered as key factors for location selection when foreign corporations invest directly. In 1998, 65.59% of all postal services were occupied in eastern districts while only 11.23% were in eastern regions. Moreover, various indexes relating to information exchange in western China were far below the average level, for example, the popularity rate of telephone was only 4.5%, less than half of mean level 10.64%. Table 2 presents the data of telecommunications capacity in eastern, middle and western China in 2008, dividing into five segments: long-distance telephone exchange capacity, capacity of office telephone exchanges, mobile telephone exchange capacity, the length of long-distance fiber-optic cables, broadband Internet access ports. The efficient information flow contributes to the fast circulation of materials and goods. In addition, it has been proved that if penetration rate of telephone increases by one per cent, then GDP per capita is raised by 0.52%. The advanced penetration rate of broadband internet stimulates local economic growth. In addition, the supply of water and electricity in western China drags their development process. On the basis of data from State Power Corporation, the rate of exploitation in water and electricity is more than 50% in eastern regions with only 7% of resources, conversely, merely 8% of water and electricity resources are utilized in western China occupying 75% of resources. The lack of water is the key factor restricting FDI in western regions. All these factors generate the huge gap in FDI between western and eastern China.

Table 2. Comparison of Main Communication Capacity of Telecommunications in 2008

	Long-distance telephone exchange capacity (circuit)	Capacity of Office Telephone Exchanges (ten thousand line)	Mobile telephone exchange capacity ten thousand subscribers)	Length of long-distance fiber-optic cables (kilometers)	Broadband Internet access ports (ten thousand ports)
China	16907188	50863.2	114531.4	797979	10890.4
Eastern	8661666	25371.3	59245.0	216030	6552.5
Middle	4531728	12133.0	28155.2	228241	2408.3
Western	3668162	11222.2	27131.2	353610	1929.8

Source: China Statistical Yearbook 2008

Labour Factor

Payroll cost of labour force is another important influencing factor when foreign investors choose location, especially for the investment in labour-intensive foreign corporations. Since labour cost takes up a magnificent part of overall expenditure, cheap labour cost in other countries is their main purpose for investing abroad. Corporation's international competency is, to a certain degree, determined by labour cost because cheap labour force provides cost leadership for products. Developing countries, compared to developed countries, are in shortage of technology and market scale; meanwhile their labour costs are much lower. Theoretically cost of labour force should be negatively correlated to FDI inflows, which means the lower labour cost, the easier attraction of FDI. The higher labour cost, the higher operation costs and the lower revenue and the more difficult to attract FDI.

However, real circumstances are on the reverse side of traditional theories. According to Table 3, it is obvious to recognize that the average wage of labour force in eastern regions which attract the majority of FDI is far more expensive than in middle and western regions. Probably, MNCs emphasize labour's quality more than the payment, as they consider that the loss of production efficiency caused by unqualified labours would exceed labour cost benefit a lot. From foreign investors' perspective, highly qualified personnel are capable of acquiring and comprehending organization's culture and management thoughts, easily absorbing and adapting to corporation's value and culture. In addition, highly qualified personnel, in most cases, can master another language and have better communication skills, assisting them with better communications with managers from foreign corporations, eventually contributing to the efficient management of the whole company. Human capital stock in eastern districts is higher than other regions in China, in association with the larger number of schools and student enrolments. In addition, an increasing number of highly qualified people emerge in eastern regions, such as Shanghai and Zhejiang Province. Nevertheless, until 2008, there are only 542 schools in the western region, approximately half of number of schools of the eastern region and illiteracy rate remains incredibly higher in the western region than other regions, resulting in the lower level of labour's qualifications and less attraction for FDI. As a consequence, foreign corporations are willing to pay higher salary to hire highly qualified labours located in eastern China.

Table 3. Average Wages of Labour in Eastern, Middle and Western China (unit: RMB)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Eastern	11628.6	13488.2	15275.3	17254.5	19615.5	22257.6	25311.4	29659.5	34547.2
Middle	7412.9	8486.9	9697.9	10951.5	12872.5	14736.8	16975.8	20536.4	24018.5
Western	8863.7	10679.1	12364.8	13691.3	15515.7	17077	19712.1	24294.5	28004.8
Average	9371	10870	12422	14040	16024	18364	21001	24932	29229

Source: China Statistical Yearbook 2008

Agglomeration Effect Factor

Agglomeration effect has an important effect on foreign investors in choosing location. Agglomeration refers to the industry phenomenon and economy process of similar enterprise producing specific products, in association with supporting enterprises in the upper and down streams, focusing in certain economic zones. Agglomeration contributes to corporations in obtaining excessive economic benefits, which is called agglomeration effect. In general, there are three types of agglomeration effects: scale economy, localization economy, and urbanization economy. Scale economy realizes work specialization and gains industrial auxiliary capacity and completes socialized service system, and reduces production costs in certain markets. Localization economy decreases the cost of production in specific markets. An urbanization economy cuts down production cost by sharing production elements in certain cities. Under market economic conditions, industry agglomeration is the fundamental feature of industrial bases and core competencies.

Based on previous research, agglomeration effect pushes FDI's location selection forward. In China, industries mainly aggregate in eastern regions. Pearl River Delta region, Yangzi River Delta region and Bohai Rim region are the main locations to form relevant industry groups, particularly in the manufacturing industry, thus attracting abundant FDI and accelerating economic growth. Since middle China regions were late starters, the agglomeration effect is not sufficiently obvious, while in the western part, little agglomeration effect has been revealed due to the lag of geographic positions and infrastructures.

Policy and Culture Factor

When foreign corporations choose the location to invest in, they have to consider a region's laws and regulations, policy regime, development plan, government behaviours, language, cultures and customs. From an overall point of view, China's past policies on FDI were directed to special economic zones. For instance, in 1980s, coastal cities had benefited from different preferential policies, manufacturing and export trade expanding (Chen et al., 1995). Nevertheless, in western and middle China, relevant favourable policies are not promulgated and implemented, lagged by geographic positions. Even if policies were made, it would still be difficult to implement efficiently, further blocking FDI inflow. Consequently, the amount of FDI in eastern region is far more than in middle and western regions.

Humanistic factors also affect the choice of FDI's location, consisting of language, nationalities, religions, traditional values, moral code, education level, population quality and sanitary conditions. Trading costs for multinational corporations in local operations are sharply influenced by language and culture and commercial

customs. Local citizens' culture background determines the general social attitude, thinking concepts and patterns of behaviour, besides, all of the elements should be taken into consideration when in communication with local governments, organizations and citizens. Moreover, foreign investors have to adjust to local customs and standards. Whenever necessary, investors should revise operation strategies and structures and management skills, adapting to specific demands for local cultural environment. Language, as a tool of exchanging economic information, is linked closely to practical operations. The barriers of linguistic differences are in objective existence and complex, disturbing MNCs' sustaining operations. As a result, regions with high level of education and better language environment are more appealing to foreign companies.

Case Study

Located on the southern bank at the middle and lower reaches of Yangtze River, Jiangxi Province is adjacent to Zhejiang and Fujian Provinces in the east, Guangdong Province in the south, Hunan Province in the west, and Hubei and Anhui Province in the north. As a hinterland to Yangtze River Delta, Zhujiang River Delta, and Southeast Fujian Delta, Jiangxi is in advantage of convenient transportation. Six trans-provincial expressways have been put into operation, associated with the mileage of expressways in the province total more than 2,200 kilometres (National Statistics, 2011). These expressways and air routes, together with crisscrossing railways, water ports in Nanchang and Jiujiang, have formed in the province a convenient water-land-air transportation network. In 2008, Jiangxi's GDP totals RMB 648.33 billion, ranking the 20th in China. The population of permanent residents in Jiangxi has reached 76.765 million, with a per capita GDP of RMB 12,504. The retail sales of consumer goods accumulate up to 248.44 billion RMB, increased by 19.3%, ranking fifth in China. In some cities and towns, plants are free for investors in certain years; In addition, average labour cost is as low as RMB 600 per month (National Statistics, 2011).

Ford Motor Company is an American MNC and the world's third largest auto maker based on worldwide vehicle sales. In 1995, Ford invested in Jiangling Motors Corporation located in Nanchang, the capital city of Jiangxi Province, holding 30% of share, mainly manufacturing vehicles and trucks. In the first half year of 2009, Jiangling Motors Co., Ltd has generated a net profit of RMB 256 million. Table 4 explains the determinants when Ford Motor Company chose Jiangxi to invest, based on the previous model of analysing the influencing factors of location selection.

Table 4. Analysis of the Determinants for Ford's Investment in Jiangling Motors

Influencing factors	Attractive conditions
Market factor	<ul style="list-style-type: none"> • Increasing demand for trucks and vehicles
Infrastructure factor	<ul style="list-style-type: none"> • Convenient transportation (water -land-air transportation network) • Favorable infrastructures (water supply etc.)
Labor factor	<ul style="list-style-type: none"> • Low cost of labour force
Agglomeration effect factor	<ul style="list-style-type: none"> • Complete infrastructures and industrial matching facilities
Policy & Culture	<ul style="list-style-type: none"> • Preferential policies for foreign capital

Among the five major factors, the complete infrastructures and low labour cost play dominant roles for Ford Company in selecting Jiangling Motors Co., Ltd in Nanchang as the investment target. The convenient railway transport system in Jiangxi allows quick turnover of raw materials, for efficient and low cost production. Moreover, abundant water and electricity supply ensure efficient manufacturing. Revenue is raised by low labour cost and the rising demand for vehicles and trucks. In conclusion, convenient transportation, complete infrastructures and low labour cost attract Ford Motor to invest in Nanchang, Jiangxi Province.

Conclusion

This paper examines the key factors affecting FDI location selection in China. More specifically, it investigates the disequilibrium of FDI and the causes in three different regions in China i.e. the eastern region, the middle region, and the western region. The research is important for both foreign and host countries in order to understand the most significant determining factors in FDI location selection. The research results can also be used by different regions of the host country to attract FDI by using their own competitive advantages and privileges.

Through a comprehensive literature review and a detailed case study, the key factors are identified and they are the following: market, infrastructure, labour force, agglomeration effect, and policy and culture. In addition, it is found that regional GDP is positively related to FDI inflow. On the contrary, labour cost is negatively associated with FDI especially in eastern region of China. In the middle of China, transportation infrastructure and regional GDP are linked positively to FDI attracted. In the western part of China, the inflow of FDI is positively correlated to local investment population size and preferential policies and is negatively related to the labour cost.

Future research directions include a close study of the role of the host country government in FDI location selection and a number of detailed case studies to examine and evaluate various factors influencing location selection in foreign investments.

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FACTORS INFLUENCING LOCATION SELECTION IN INWARD FOREIGN DIRECT INVESTMENT TO CHINA

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Abstract

This paper examines the key factors influencing location selection for inflow FDIs to Mainland China. It investigates the factors affecting FDIs in three regions, namely western region, middle region and eastern region of China. The key factors affecting FDI location selection are presented and discussed. It is found that major factors influencing FDI location selection are the following: market, infrastructure, labour force, agglomeration effect, and policy and culture.

Keywords: FDI, location selection, factor, region, China.

Appendix 4

PUBLICATION IV

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THE EFFECT OF TRUST ON INTERNATIONAL JOINT VENTURE PERFORMANCE IN CHINA

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Abstract

The role of trust in international joint venture (IJV) performance has attracted a great deal of attention and trust has been recognized as a crucial factor in achieving both financial and non-financial success of IJVs. This paper examines the role of trust from two perspectives: the inter-organizational level and the interpersonal level, as well as their combinations in influencing the performance of IJVs. The paper develops a model of trust in IJVs, which is used to analyze the determinant factors of trust and the influence of trust on IJV performance. The results confirm that trust improves the performance of IJVs and outstanding performance also enhances the level of trust within firms. Results also reveal that Chinese employees hold less trust toward their foreign co-workers and great communication skills have positive influence on trust building. Furthermore, young employees are more inclined to trust people from different nationalities compared to the elders. Satisfactory level of compensation is not directly related to trust building. The findings provide important implications for communication and relationship building between foreign investors and local partners.

Key words: *trust, effect, performance, IJV, China*

1. Introduction

A joint venture can reduce transaction costs as an entry mode into a new market (Kogut, 1988). International Joint Venture (IJV) tends to perform better when firms face future uncertainty and inadequate information (Koza and Balakrishnan, 1993; Mjoen and Tallman 1997; Craig 2005). As a result, IJVs occupy the largest proportion of FDIs into the Chinese economy, which require much attention to put on their efficiency and effectiveness in China.

Trust has been studied in various fields, from psychology to anthropology, from sociology to management studies. In different fields, trust is defined and studied from different perspectives. In IJV research particularly, trust has been divided into the following categories: the parent level, the joint venture level, and the interpersonal level (Currall and Inkpen, 2002).

This study aims to contribute to the existing literature by investigating the trust perception between both parent companies and employees of IJVs and the trust-performance relationship. Several variables relating to trust are examined, i.e. life style, compensation and wage level, interpersonal communication skills, age and corporate performance. This study provides meaningful information on the characteristics of the parent companies, therefore contributing to the mutual communication understanding between foreign and local workers and parent firms. Also, it can help enhance the IJV performance located and operated in China and further examine the interaction between trust and certain organizational factors in a transitional economy context from the perspective of a local partner.

2. Trust and IJV Performance

2.1 Definition of Trust

Scholars from various disciplines have investigated the concept and nature of trust from different angles. In the 50s of last century, Deutsch (1958) saw trust as a **dependent variable** and proposed the famous ‘prisoner’s dilemma’. Deutsch’s research towards source credibility, as well as Hovland et al. (1953), is regarded as the **opening of psychological trust**. However, there are critics based on considerations that other psychological status other than trust may lead to cooperation between partners. Rotter (1971) defined trust as “an expectancy held by an individual or a group that the word, promise, verbal, or written statement of another individual or group can be relied on”. He pointed out that different individuals hold various degree of trust towards others because of their disparate life experience. Since then, the personality perspective, which views trust as an individual characteristic, is **developed**.

Lewis and Weigert (1985) stated that trust is caused by cognition and affection. Similarly, Kramer (1999) proposed the rational choice and relational choice in analyzing trust issues. Mayer et al. (1995) asserted that an individual’s emotions give rise to trust, which challenges the rational choice viewpoint. In their study, trust is “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor”. Rousseau et al. (1998) suggested the definition as “a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another.” They also **defined three kinds of trust**, that is, the calculus-based trust, relational trust and deterrence-based trust. Calculative trust is based on economic benefit and relational trust is based on exchange history. Likewise, the rational trust perspective describes the development of trust in terms of an individual’s calculative decision-making processes (Coleman, 1990; Gambetta, 1988). One party’s decision to engage in trust is made on the basis of whether the probability of receiving benefits from the other party’s actions is high enough (Gambetta, 1988).

The sociological perspective suggested that trust will develop or fade over time according to prior social interactions between exchange partners. Through ongoing positive interactions, exchange partners learn about each other and develop trust around norms of equity (Gulati, 1995). Similarly, Earle and Cvetkovich (1995) **proposed the social trust concept and further divided trust into pluralistic social trust and cosmopolitan social trust**. The former was built upon existing values while the later was based on emerging values and is built inside certain groups.

System level trust was also defined, which elaborated trust from a **macro-perspective**. Luhmann (1979) developed the interpersonal model and institutional model to further

distinguish the different trust source. As Luhmann (1979) notes, “trust has to be achieved within a familiar world,” without a shared institutional foundation, neither calculative trust based on economic benefit nor relational trust based on exchange history is likely to occur (Rousseau et al., 1998). Similarly, Zucker (1986) divided trust into three levels through analyzing North American socio-economy developments, that is, the process-based trust, character-based trust and institution-based trust. Process-based trust is more suitable in small groups with frequent contacts. In the complex and changing society, individual’s disposition to trust represents the primary driver of the establishment of trust in an unfamiliar environment. The institutional perspective focuses on situational factors (e.g., organizational and institutional structures and processes) to explain the development of trust. From institutional perspective, social institutions, such as regulations and laws, play the key role in trust building (Shapiro, 1987; Zucker, 1986).

It is proposed that trust development may be affected by the trustor’s personality (personality model), cognition (rational choice model), affects (emotion model), exchange history (sociological model), and surrounding context (institutional model). More specifically, the role of life style, compensation level, communication skills and age on trust and trust-performance relationship, are examined in this research.

2.2 Trust in IJV

A great deal of attention has been paid to the performance of IJVs in recent years and trust has been identified to be a crucial factor that contributes to the success of IJVs (Currall and Inkpen, 2002; Inkpen and Currall, 2004; Madhok, 2006). Barney and Hansen (1994) pointed out that mutual trust between parent companies and employees is a major competitive advantage for a company. In cooperative organizations, trust augments profits due to resource commitment. Relationship building between partners is a challenge for all cooperative alliances (Dyer and Chu, 2000), especially for IJVs in emerging economies, in which trust is particularly hard to build due to the high degree of uncertainty and risk incurred by the cross-board differences with regard to culture, politics, and trade policy (Child and Faulkner, 1998). Fryxell et al. (2002) found that the reliance on formal control mechanisms and the perceptions of general managers of IJV performance are positively related in younger IJVs, but negatively related in more mature IJVs. This suggests that age and partner trust have effects on the relationship between control mechanisms and perceptions of performance.

Trust in IJV research should be measured from different levels, that is, the interpersonal level, the parent firm level and the organization level (Currall and Inkpen, 2002). Although most studies on trust have focused on interpersonal trust, Zaheer et al. (1998) asserted that interpersonal trust and inter-organizational trust are basically different constructs that have a reciprocal influence on each other. They found firm level trust to be of greater significance in generating favorable organizational outcomes than interpersonal trust, because interpersonal trust is vulnerable to changes in key personnel and the possible breakdown of interpersonal relationships (Dodgson, 1993). Boersman et al. (2003) developed a process model of trust building in IJVs, and found that different types of trust play different roles in the process. Whereas competence-based trust starts from public information, contractual-based trust and goodwill trust develop through direct personal interaction. In the early phases of an IJV, promissory-based trust predominates, while in mature phases competence-based trust starts to emerge. Goodwill trust is of importance throughout the process.

Inkpen and Currall 2004 tested the trust, control and learning evolution from parent company level. They built a theoretical framework to explore the relationship between trust and ownership in IJVs and how they influence the IJV process. Levels of trust differ across national borders, and hence the nature of trust and the institutional and cultural support for trust vary across national contexts (Zaltee and Zaheer, 2006). A model was developed which concludes that the effect of trust on firm performance is not always a direct relationship. In the article “How much does ownership really matter? Equity and trust relations in joint venture relationships”, Madhok (2006) found out that the number of enterprises who shift their emphasis on ownership to relationship building was increasing. The dissatisfaction accompanied by the emergence of IJVs resulted from overemphasis on operating outcomes rather than social process of performance. Thus he reaffirmed the trust-centered perspective in enhancing corporate performance in IJVs.

Recently, research about trust-performance relationship in Chinese IJVs is emerging. In the article “The effect of trust on international joint venture performance in China”, Ng et al. (2007) reexamined the role of trust between parent companies and it is suggested that trust not only influences performance but also moderates the relationship between performance and contextual elements such as cultural difference, local reliance and senior executive experience. The moderating effects of trust on the relationships between local reliance, experience of executives and performance were confirmed for the senior executive sample, but the moderating effect of cultural distance was not consistent between the firm-level and country-level measures. Wong, et al. (2007) examined the roles of those strategies – **localization, communication, and control – and their combinations in building the trust of local senior managers in IJVs**. The results revealed that the joint use of localization and communication represents a positive strategic combination for trust development. However, a localization strategy coupled with intense control inhibits trust building.

3. Model and Hypothesis

In the IJV literature, Parkhe (1993) specified the importance of trust on IJV performance. In certain instances, legal and ownership arrangements may not be as useful as mutual trust in controlling the speculative behavior of the other party. Yan and Gray (1994, 1996) suggested that trust may be helpful to achieve both financial and non-financial objectives of both of the parent companies in an IJV, and Baird et al. (1990) found the inter-partner working relationship, or trust, to be ranked first among the determinant elements that lead to success of IJVs in a study of Chinese and U.S. middle-level managers. As a soft variable, trust can be considered as a complement to other structural variables. In IJVs, trust can be seen as an informal control mechanism that supplements deficiencies in the formal control system (Luo et al., 2001). Recently, Li et al. (2006) also found that trust development between parent firms in emerging economies is important for IJV performance. Thus, in line with the literature, we assume that trust can be regarded as one of the key variables that determine successful achievement of corporate goals.

In general, we hypothesize that a higher level of trust between IJV parents will lead to better IJV performance.

Hypothesis 1: The level of trust between IJV parents is positively related to IJV

To explore this relationship further, several important contextual variables in IJVs are examined, namely, life style, compensation distribution, communication skills and age. Life style reflects one's terminal value and attitude towards living (Morris, 1956). More specifically, life styles can be reflected from clothes, entertainments, social interactions, and working attitudes etc. Employees with various life styles tend to understand and accept different ways of living and show more empathy towards others. We therefore hypothesize that employees with more individualistic way of living are more willing to trust employees from different cultural backgrounds.

Hypothesis 2: Employees who show individualism in living are more inclined to accept different cultures and values. These employees tend to show more trust in foreign coworkers than peers in drab living styles.

According to the Law of Chinese Labor force, employees with the same working quality and quantity should be paid the same. This statement aims to reduce social distributive inequity. However, the status quo is not optimistic, especially in some monopolistic state-owned enterprises (SOEs). Workers in some sectors such as electricity sector and oil sector earn much more than their peers in other sectors. Distributive inequity directly results in dissatisfaction in employees and low efficiency in production. Likewise, compensation distributive inequity exists in IJVs in China. While the job task is the same, employees from foreign partners and employees from local partners get different salaries (usually the foreign employees get more compensation than local employees). Notwithstanding other reasons for such high salaries, salary distributive inequity influences relationship and generates distrust between workers from different countries.

Hypothesis 3: When holding the same jobs, distributive inequity in salary results in distrust between employees from different partners.

Communication is meaningful, timely information sharing between partners, both formally and informally (Anderson and Narus, 1990). When communication between exchange partners becomes more effective, relevant information sharing augments, and partners get to understand each other better, which then engenders shared identification between those partners (Dutton et al., 1994). The shared identity such as similar beliefs and judgments about future developments, leads to mutual trust (Kogut and Zander, 1996). Moreover, when partners swap messages about plans, programs, expectations, and goal setting, they can achieve an integrative agreement and inhibit misunderstandings (Rapert et al., 2002). Communication thus reinforces trust by aligning the partners' perceptions and expectations, resolving disputes, and coordinating behavior (Das and Teng, 1998). Furthermore, communication enhances trust by reducing role ambiguity, which is the degree of discrepancy between the information available and the information needed to perform a job (Sigh and Rhoads, 1991). Finally, communication conveys affluent knowledge and provides cues for interpreting and understanding exchange partners' behavior and motivations (Dyer and Chu, 2000), which facilitates trust building and prevent opportunistic behaviors. Therefore, we hypothesize that

Hypothesis 4: Because of language similarity and communication style, employees with the same nationality understand each other more thoroughly and therefore enhancing trust between each other in an IJV.

According to GSS „General Social Survey" report, trust level decreases as one becomes elder. It is probably due to the openness of young people. The young are more open and acceptable to new things than the elders. The survey also suggests that for the employees, their innovation ability reduces as the age grows.

Hypothesis 5: The younger employees tend to hold trust in foreign workers than the elder employees.

The following Figure 1 illustrates the trust building model:

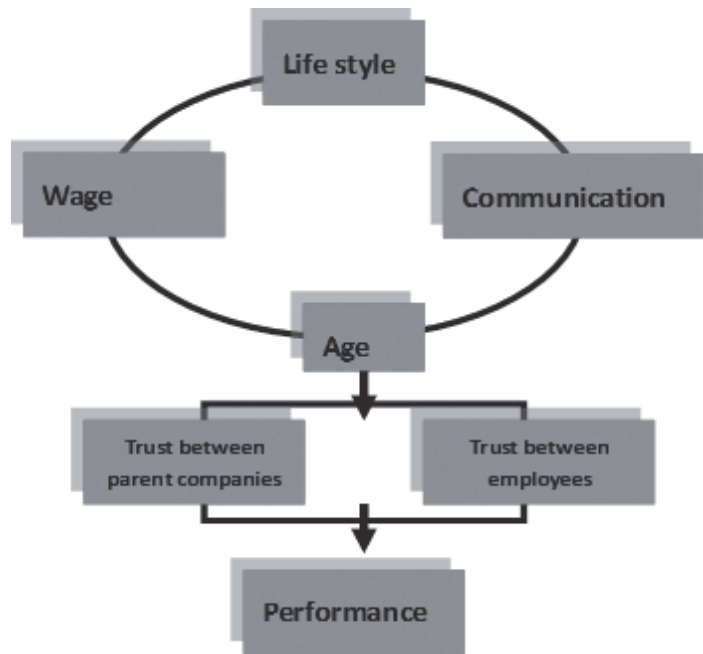


Figure 1. Relationship between trust and IJV performance

4. Sample and Data Collection

The study applies case study research methodology. Case study research methodology is appropriate to the study of determinants of trust and the role of trust in corporate performance. The aim of this research is to study international joint ventures as opposed to national joint ventures. Hence, the joint ventures should have at least one foreign partner. In order to reduce variation, we selected joint ventures with foreign partners from countries with quite similar cultural backgrounds. The foreign partners are from the U.S and U.K. They are both characterized by individualism. The cases are used to test the hypotheses.

4.1 The Companies

The first company interviewed is the world's largest soft drink company—the Coca cola company. Their products are distributed to over two hundred countries in the world. Statistics show that more than 16 billion cups of coca cola are consumed every day in the whole world. Coca-cola is by far the world's most valuable brand. It has been long since Coca cola Ltd. had its first establishment in China. Up to October, 2009, there have been 39 bottle-making companies and over thirty thousand employees in China, 99% of which are local Chinese (Coca cola, 2010).

Astra Zeneca Ltd. is a cutting edge biological medicine company which is driven by innovation. The head office of Astra Zeneca Ltd. locates in London, England. The company reached the net income of 328 billion dollars in year 2009. The biological company mainly research medicine in six areas, those are, the cancer area, the digestion area, the respiration area, anti-infection area, cardiovascular area, centre nerve area. The company devoted great effort in medicine research and development, producing and marketing. Every year the research

and development investment accounts for over forty billion dollars. There are around 62 thousand workers in the world, especially in emerging markets. As China's biggest multinational medicine making company, Astra Zeneca Ltd. locates its head office in Shanghai. There are over 3500 employees in China. The partners are from U.K, Sweden and China (Astrazeneca, 2010).

Table 1. A Comparison of corporate cultures of the companies

	Coca cola Ltd.	Astra Zeneca
Spiritual culture dimension	Make people feel refreshed and experience the feeling of free in body and spirit; Keep people feel optimistic and enthusiastic; Make things we touch more valuable	Respect characteristics and encourage diversification; Hold openness, honesty, and mutual trust towards each other; Stimulate leadership
Institutional culture dimension	Keeping the sales steady; Making profits; Managing employees – stimulate potential of employees; Product management; Cooperative partners – establish win-win strategies; CSR	Product management – supply and promote new medicines to markets; Employee management – stimulate diversification and creativity among workers; CSR
Material culture dimension	Corporate culture communication channels: official websites, TV advertisements, posters, newspapers, etc.	Corporate culture communication channels: official websites

The corporate culture can be defined from three dimensions: the spiritual culture dimension, the institutional culture dimension, and the material culture dimension. The spiritual culture includes the company's core value, corporate spirit, corporate philosophy and company morality. The institutional culture consists of human resource notion, marketing and production notion. The material culture includes firm motto and culture communication. There exists relationship between the three kinds of culture. The spiritual culture is both the basis of institutional culture and material culture and cornerstone of corporate culture. The institutional culture constrains and regulates spiritual and material culture. Finally, the material culture conveys the spiritual culture and institutional culture. A comparison of corporate cultures of the two companies is presented in the above Table 1.

The sample of this study comprises two IJVs in China. As China is still in a period of economic transition and the business conditions are highly uncertain, trust is expected to make a crucial contribution to the success of IJVs. In addition, Chinese culture emphasizes trust and mutual respect, and the rule of man is promoted over the rule of law (Hofstede, 2001). Thus, Chinese IJVs are appropriate to test our hypotheses.

In this research, IJVs with parent companies from the United States and the United Kingdom are studied. It is statistically proven that over the last three decades most of the companies that have formed joint ventures in China have originated from the U.S, Japan, and European countries (Ng et al., 2007). Moreover, they represent a broad range of cultural distance from China, which facilitates the comparison of the implications of communication styles on IJV trust. To control for industry effects and firm size, only IJVs with more than 200 employees were included. Furthermore, only IJVs with three or more years of operational history in China were sampled to achieve a more valid assessment of inter-partner relationship and firm performance. Those two companies have both been operated in China for more than five years and already occupied mature management skills and marketing strategies (Astrazeneca, 2010; Coca cola, 2010).

In this research two sets of responses were received from the sampled IJVs: one from the senior managers of the parent companies and the other from the employees of IJVs. The responses from senior managers can be further divided into the responses of the Chinese managers and the senior managers from foreign parent firms. This approach not only reduces the common method variance that is caused by single source bias, but also provides more information with which to triangulate the findings. The parent sample also helps in the development of a more comprehensive understanding of the effect of trust on firm performance from the point of view of different constituencies. Both of the two sets of data were collected through questionnaire surveys that were conducted in person. The interviewees were selected randomly from the companies' personnel name lists. A total of 35 respondents were surveyed, and 31 valid responses were collected. Of these responses, 4 were senior managers from Coca cola Chinese parent company, 3 from Coca cola foreign parent company's senior managers. In responses from Astra Zeneca Ltd., 16 were from local employees, 3 from foreign employees, 3 from local parent company's managers and 2 from foreign parent company's senior managers. When the respondent from the Chinese parent company was also the senior executive of the IJV, the corresponding parent response was deemed invalid. The questionnaires for employees were designed to test the life style, wage distribution, communication style, age and trust relationships.

Due to time and resource restrictions, the data from the questionnaire survey are relatively limited, which may result in variations in results. To mitigate the negative influence, the answers to every survey are ensured and respondents' attitudes are positive. First, through channels like official website and employees within companies, we got a general idea of the corporate main product, organizational structure, corporate culture, etc. After that, the questionnaires are distributed and respondents are friendly informed of the utilization of the survey results to reduce their concern. Finally, a short telephone interview was made with the general manager to recheck the information validity and reliability.

4.2 Measurement

The Likert 5-item scale was used to capture the relationships between IJV variables. The respondents gave their answers according to their perceptions of the degree. The scale items are listed in the Appendices.

4.2.1 Trust Level between Parent Companies

Fourteen items adapted from the study of Sheppard and Tuchinsky (1996) were used

to measure the perceptions of trust between the Chinese and the foreign parents. The firm-level items are listed in Appendix 1. The respondents of these questions are senior managers from IJVs.

Trust among employees is measured from two dimensions: their willingness to cooperate with foreign employees; mutual appreciation with foreign managers. In prison experiment, Deutsch pointed out that trust results in cooperation, therefore herein cooperation is a reference indicator by mutual trust. Kramer (1999) asserted that in relation based trust, personal preference and instinct played a central role. Hence in this research, mutual appreciation is a reference index in trust degree. Details about those two reference dimensions are shown in Appendix 2.

4.2.2 Life Style

Those variables are measured by items in appendix 3. There are mainly two dimensions: the time spent together by foreign and local employees; the similarity of value and work attitudes. Those dimensions can reflect the life styles of the different employees. People with similar values hold similar life styles as the life style is representation of one's value (Morris, 1954).

4.2.3 Compensation Distribution

The variables are also measured by items in appendix 3. The wage distributive inequity will result in psychological unbalance in employees, therefore influencing trust level.

4.2.4 Communication Skills

These variables are measured by relevant items in appendix 3. There are many factors conducting ineffective communication, such as language system, psychological issues, different communication styles and distance, etc.

4.2.5

After comparing different ages and levels of trust, the trust-age relationship is therefore concluded. Degree of trust is measured by items in appendix 2.

4.2.6 IJV Performance

IJV performance was measured in terms of how well the interests of the parents were satisfied. As Yan and Gray (1994) suggested, an IJV may perform well in terms of financial criteria, but there may be discontent between the parents if the objectives of one have been overlooked. Based on previous work (Mjoen and Tallman, 1997; Yan and Gray, 1994), a composite measure was developed to cover the various possible objectives that are commonly set by the parents of IJVs in China. The respondents were asked to rate the degree to which their IJV had achieved these goals on Likert scale. The items were divided into financial and non-financial achievements. The financial goals included profit, sales in local and foreign markets, and market share, and the non-financial goals comprised product quality, the acquisition of management skills, technology transfer, and the promotion of cooperation among the parties involved.

4.3 The Data

The data are figured out by the following steps: first, the results are divided into three groups: the local and foreign employees, the salary above and below 6000 RMB per month, age between 25~30 and 31~40. We choose 6000 RMB because it is approximately the average salary level in these companies. We divide the age groups based on the classification of young people and in China people under 30 years old are normally regarded as young people. The mathematic mean of each group is calculated respectively. The second step is to categorize the results based on related topics, and compute the mathematic mean of each variable related question. The results are presented in the following Table 2.

The data in Table 3 are calculated in two steps: first, the mathematic mean is calculated separately in each of the two groups, that is, the local and foreign managers group; secondly, the mean is categorized by trust level and performance satisfaction.

Table 2. Results of trust level among employees and four variables

		Chinese employees	Foreign employees	Salary/month over 6000 yuan	Salary/month under 6000 yuan	Age	
						25~30	31~40
Trust level (high scores imply low trust level)		2.6727	2.75	3.075	3.1143	3.0909	3.25
Life style	Time Together (high Scores imply short time together)	2.2728	2.375				
	Value (high scores imply Low value acceptance)	3.1364	2.625				
Communication skills ☺ high scores imply ineffective communication skills ☹		3.0455	3.25				
Compensation distribution		Wage satisfaction		3	2.8571		
		Perception of fair and equality		2.125	2.2857		

Table 3. Trust level and performance satisfaction results

	Chinese managers	Foreign managers
Trust degree (high score implies low trust level)	2.6286	1.5714
Performance satisfaction (high score implies low performance satisfaction)	2.875	1.0825

4.4 Analysis and Discussion

4.4.1 Life Style

Conclusion 1: Chinese employees are more tend to spare time with Chinese employees compared to foreign employees.

Conclusion 2: Foreign employees are more inclined to assume that mutual value and principles are similar to each other than Chinese workers.

Conclusion 3: Foreign employees hold higher trust level to coworkers than Chinese workers.

Hofstede once pointed out that in communist societies, the mainstream value strengthens responsibility and tend to avoid uncertainty. China is a typical communist society and the Chinese employees like to spend time together and work together. In life style choice, western countries focus on individualism education while the east emphasize relationship building and realize potential and self-value in groups (Morris, 1956). Thus, Chinese employees are more restricted to group choice than foreign employees, which can be proved in the conclusions above.

In the companies surveyed, foreign employees are all from western countries whose individualism is high in Hofstede’s culture dimension studies. Foreign workers tend to enjoy different kinds of life styles and hold open minds to different cultures. Conclusion 3 shows that foreign workers are more inclined to trust people from different nationalities, though the trust level is not significant. Thus H1 is supported.

4.4.2 Compensation Distribution

Based on the data above, the conclusions are as follows:

Conclusion 1. There exists no direct relationship between salaries and satisfaction.

Conclusion 2. Workers with low salary satisfaction possess higher trust levels than workers with high trust satisfaction.

Conclusion 3. Employees with higher salaries held higher trust levels than employees with lower salaries.

According to research, wage distributive inequity exists in the same job level in IJVs. There are various reasons for this phenomenon. The first reason is the different labor force value to the firm. Most IJVs correlate with bi-directional trade between Chinese and foreign partners. Foreign employees with language advantages, predominant and reliable education

backgrounds, creative thinking minds and superior communication skills are labeled with higher prices. The second reason is the demand and supply relationship in Chinese labor force market. Supply in local Chinese labor force market far exceeds the demand of it. The wage is relatively low and therefore appearing unattractive to foreign employees or managers. However, IJVs require not only workers from local markets but also from parent firms. Thus the prices for foreign labor force are much higher than local labors.

On the basis of the equity theory, people's satisfaction in salary is **not only based on actual salaries**, but also relate to **the feeling of equity**. **Conclusion one proves the equity theory**. However, the data is subjective in terms of the criteria of equal and the measurement of performance, etc. Thus the results are limited to a certain degree.

Conclusions show that the relationship between wage satisfaction and trust is **as expected**, but the wage level will affect the degree of trust **between employees**.

4.4.3 Interpersonal Communication

The data reveals the following conclusions:

Conclusion 1. Communications among employees from different countries are not as effective as communication among workers from the same country.

Conclusion 2. Employees perceive lower communication satisfaction in cross-border communications than unitary culture communication.

Communication refers to interpersonal information transmission. This kind of interpersonal information transfer is more than just verbal communication, it also includes body gestures and facial expression.

Among the two companies surveyed, culture shock exists significantly. Misunderstanding is easy to happen before two parts getting to know each other better. Based on the estimation of Wall Street Journal, tens of billions of dollars are losing every year because of communication ineffectiveness and deteriorating relationships between parent companies. In those cases, if two parts would change their position and show more comprehension and appreciation towards the other part, things might turn out to be more optimistic.

In this survey, the part with better communication skill tends to trust the other part, which is in support of H3.

4.4.4 Age

It can be concluded from the above data that young employees are inclined to trust coworkers from different nationalities than elder ones.

The globalization renders the new generation open minds and tolerance towards different cultures, especially for the young generation in China who act and think quite differently from the elders. They are no longer willing to be constrained by hierarchical bureaucracy and tend to be more aggressive and ambitious.

As one becomes older, stubbornness are more likely to evolve. Stubbornness might lead to selective perceptions in unfamiliar circumstances which are harmful for progress. The conclusion supports H4.

4.4.5 Performance and Trust

The conclusions are as follows based on the above data:

Conclusion 1: Chinese managers show lower satisfaction in performance than foreign managers.

Conclusion 2: Chinese managers show lower level of trust than foreign managers.

Conclusion 3: managers with higher performance satisfaction show more trust to partners.

The data show that foreign managers tend to show higher evaluation than Chinese managers. However, the feedback may be somewhat related to different culture customs. Besides, different countries have different perception of degree of trust. Thus, the results may consist of deviations. **The conclusions are in support of previous research.**

5. Conclusions and Implications

Our study investigated the determinants of trust and trust-performance relationship in IJVs. The findings of this research contribute empirical evidence to support the hypotheses that there is a relationship between performance and trust, and give support to the claim that there are certain factors contributing to trust in IJVs. The conclusions are summarized in the following Table 4.

Table 4. The relationship between the variables and trust

- | |
|--|
| <p>1. The influence of life style on trust
Chinese employees tend to show more trust in Chinese colleagues rather than in foreign colleagues.</p> <p>2. The influence of compensation on trust
Employees with high salaries are inclined to trust in low-paid employees. There exists no direct relationship between wage satisfaction and trust.</p> <p>3. The influence of communication skills on trust
The better the communication skills, the higher the trust level is.</p> <p>4. The influence of age on trust
Young employees are inclined to trust coworkers from different nationalities than elders.</p> <p>5. Relationship between trust and performance
Trust will improve performance. Likewise, partners who possess high performance satisfaction are more inclined to trust each other.</p> |
|--|

The above conclusions are compatible with the hypotheses in terms of life style, interpersonal communication, age and trust-performance relationship. In the compensation variable, though the data are in accordance with equity theory, the data reveal that wage level rather than wage satisfaction poses influence on trust.

The findings provide important implications for foreign investors hoping to build trust among local senior managers in uncertain environments such as China. In terms of theoretical implications, several suggestions are proposed to increase trust levels and enhance performance. First, our comparison of life styles suggests that various activities should be encouraged. Those activities should increase contacts between foreign and local employees and therefore fostering pluralistic life styles in local employees. The second implication is to increase wages

of low paid workers who perform well in jobs, hence enhancing employees' feeling of equality in salaries and improving trust levels. The third implication is to set up employee consulting services for employees to express their inner feelings about the company. The next suggestion is to offer a platform for older workers to interact with young colleagues, thereby increasing their acceptance towards new things. Meanwhile, to improve trust level and performance between parent companies, the first and third suggestions are appropriate herein, that is, to encourage various activities and to establish and support consulting services.

A potential limitation of the research is the small size of our IJV sample, which gives rise to statistical tests with relatively low power in terms of reliability and generalizability. Therefore, the results should be viewed with caution. We would want to further explore whether or not, for example, the Japanese IJVs with similar cultural background with China. We would also want to examine how IJVs in China operate in areas other than Shanghai. Two of the variables adopted in this paper are related with culture distance. Though culture distance is pointed out in the article, it still remains abstract. In future research, the influence of corporate culture on employees' value and work attitudes should also be taken into consideration.

Our study on the measurement of trust level is of two levels: the firm level and interpersonal level. The distinctions between the criteria of the two levels are indefinite. The criteria of the firm level trust and the interpersonal trust level should not be identical (Currall and Inkpen, 2002). Therefore in future research, it is preferred to specify the level of trust and make results more accurate and precise.

Another potential limitation is in the data analysis for the life style variable. In the process, individual distinctions are neglected, which lead to indirectness in relationship between the two variables and trust level. The omission also exists in cultural differentiation between local and foreign employees.

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Appendices

Appendix 1. Measurement of trust between parent companies

Please choose the best scale you think suits best (1-totally agree; 5-totally disagree).

Each parent knows that the other parents will consider its concerns when making decisions.

The quality of communication between the parents is extremely good.

The parents discuss the critical issues of their collaborative relationship well.

There is frequent contact between the representatives of the parents.

The parents have a long history of cooperative relationship.

Each parent expects to interact with the other parent for a long time in the future.

The goals of the parents are the same.

The parents share similar value and views with each other.

The parents will both benefit from the same objectives.

The parents deem the other part as members of the same group.

The parents both engage in many activities.

Each parent is familiar with the major constituencies of the other parent (e.g., the other parent's major suppliers).

The parents understand well the bases of each other's success.

The parents understand each other's primary problems at work.

Appendix 2. Measurement of trust between employees in IJVs

Please choose the best scale you think suits best (1-totally agree; 5-totally disagree).

- *Compared to colleagues from my own country, foreign colleagues are more trustworthy.*
- *When facing problems in my work, I prefer a colleague comes from my own country to answer my question.*
- *If I was promoted, it would be more likely that I was promoted by a superior from my own country.*
- *If it is required to form a project team, I would prefer to stay with colleagues from my own country.*
- *I appreciate superiors from other countries rather than those from my own country.*

Appendix 3. Measurement of determinants of trust

Please choose the best scale you think suits best (1-totally agree; 5-totally disagree).

- *Compared with other colleagues, my wage level is relatively fair.*
- *During lunch time, I prefer to stay with colleagues from my own country than with other colleagues who are not.*
- *My foreign colleagues view the world in a same way as I do.*
- *My colleagues who are not from my own country share the same attitude and principles towards work with me.*
- *I spend more time with colleagues from my own country.*
- *Compared with colleagues from my own country, my communication with foreign colleagues is quite well.*
- *I think trust is based on fairness rather than sharing the same value.*
- *Employees come from different countries speaks different languages, thus making it harder to establish trust compared to employees from the same country.*

Appendix 4. Measurement of performance

Please choose the best scale you think suits best (1-totally agree; 5-totally disagree).

- *Profit*
- *Sales in the local market*
- *Sales in overseas markets*
- *Market share*
- *Product quality*
- *Acquisition of management skills*
- *Technology transfer*
- *Promotion of cooperation among the parties involved*

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