

A MODEL OF CONTROL PARITY AND STRATEGIC STAKES

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ABSTRACT

Results of extant research into how ownership control affects performance of International Joint Ventures (IJVs) in emerging economies such as China have been inconclusive. We aim to solve this problem by analyzing two control mechanisms: ownership control and operational control. We argue that operational control by foreign parent firms in proportion to their ownership control is critical to performance of IJVs in China. Designing a proper relationship between ownership control and operational control, however, depends on the degree of strategic stakes, a concept addressing the relative importance of resource provisions in IJVs. A conceptual model and corresponding propositions are developed.

INTRODUCTION

Establishing International Joint Ventures (IJVs) is considered a common method for firms from developed countries such as the U.S. to enter emerging economies such as China (Child, 2002; Yan, 2000; Yan & Child, 2004). Doing so enables firms from developed countries to seek growth outside their saturated home markets, and firms from emerging economies to increase global presence and competitiveness (Pearce & Branyiczki, 1997). For example, the Chinese government approved 405,180 joint ventures with total capital of \$419.8 billion USD between 1979 and 2002 (Li, Zhang, & Jing, 2008). Managing IJVs, however, has never been an easy task; it has high failure rates (Kogut, 1988), and more so in emerging economies (Luo, 2007a; Steensma & Lyles, 2000). Compared to a wholly-owned subsidiary, managing IJV performance has additional difficulties as the two or more parent firms need to effectively coordinate their activities to reduce conflicts of interest and opportunistic behaviors by parent firms, such that they can effectively utilize resources and implement strategies to gain competitive advantages (Geringer & Hebert, 1989; Schaan, 1983). Gaining effective control in IJVs thus plays an important role (Duan & Chuanmin, 2007; Dhanaraj & Beamish, 2004; Yan & Child, 2004).

There are different approaches to studying control in IJVs and we focus on exploring the relationship between two control mechanisms: ownership and operational control. Empirical studies indicate a discrepancy between these two control mechanisms (Blodgett, 1991; Child, 2002; Schaan, 1983, 1988), that is, parent firms with a high level of ownership control do not necessarily have a high level of operational control. There is still a need for theoretical work to address this discrepancy and provide analysis on how it affects IJV performance (Geringer & Hebert, 1989; Yan & Gray, 1994, 2001).

Ownership control refers to a majority ownership position, which parent firms can rely on to manage an IJV's activities. Studies indicate that ownership control could determine parent firms' behavior in managing IJVs, and it serves as predictor of the overall control held by parent firms and control over specific strategic decisions (Child, Yan, & Lu, 1997; Killing, 1983). In IJVs in China, both foreign and Chinese partners provide resources to the joint venture either through written or verbal agreement (Yan & Gray, 1994). Studies found that more often Chinese firms than foreign firms provide knowledge about government relationships, laws and customs, and consumer preferences in the domestic market; while foreign firms more frequently provide financial resources along with technological and managerial expertise (Child, 2002; Yan & Gray, 1994; Yan & Child, 2004). As a critical resource for growth, capital investment by foreign firms has received extensive research attention in terms of ownership control (Beamish & Banks, 1987; Dhanaraj & Beamish, 2004). It serves the needs of most of the Chinese entrepreneurial firms who lack capital to develop the domestic market, and establishing an IJV provides a practical way to tap into the traditionally deeper financial resources and production expertise provided by foreign partners. Ownership control is therefore perceived as a highly visible, fair and practical control mechanism for foreign firms to rely on, and thus is a critical focus for foreign firms in establishing IJVs in China (Duan & Chuanmin, 2007; Killing, 1983; Li et al., 2008). Nevertheless, the effect of ownership control on IJV performance is still ambiguous, given that empirical results have been inconclusive (Dhanaraj & Beamish, 2004; Li et al., 2008; Luo, 2007b).

Researchers have suggested exploring additional control mechanisms besides ownership. The seminal work by Geringer and Hebert has drawn attention to operational control that is not a strict consequence of ownership control (1989). Operational control is carried out through controlling day-to-day business operations in IJVs, rather than through controlling ownership stakes. It reflects control activities in areas of management systems, selection of general managers, and specific functional areas such as sales and technical operations (Child, 2002; Yan & Gray, 1994). Operational control was especially applied to understand IJVs' management control issues in developing economies such as China (Child, 2002; Yan & Gray, 1994). We continue this line of research by advancing the argument towards the notion of a balanced relationship between ownership and operational control. The balanced relationship is termed control parity, which should reduce conflicts and opportunistic behaviors in IJVs and ultimately enhances IJV performance.

We also investigate contingency variables in this study. Earlier studies examining for example, goal congruency, IJV experience and strategic independence (Guidice & Cullen, 2007; Pangarkar & Klein, 2004) generated interesting results. We believe exploring additional contingencies can broaden our understanding of the complexity of multiple control mechanisms. We investigate strategic stakes, which describes the degree of the importance of the IJV that parent firms perceive, depending on the combination of the relative importance of resource provisions to IJV performance and the relative importance of the IJV to parent firms' own performance. This concept is developed from bargaining power research (Yan & Gray, 1994), and enriched by studies of resource based control seeking behavior in IJVs (Chi, 1994; Geringer, 1991; Mjoen & Tallman, 1997; Yan & Gray, 1994; Yan & Child, 2004). The study has two main contributions. First, we advocate establishing control parity, a balanced relationship between ownership and operational control in IJVs. Control parity can reduce potential conflicts of interest and opportunistic behaviors, and thereby enhances IJV performance. Second, prior to designing control parity, we advise parent firms to investigate the degree of strategic stakes in order to design an optimal control parity that strengthens IJV performance.

LITERATURE BACKGROUND

Ownership Control

Foreign parent firms in their Chinese IJVs usually contribute substantial financial resources, and their capital investment is normally incorporated into IJV equity (Child, 2002). Foreign parent firms also contribute non-capital investments such as systems, management service and training; however, these are not incorporated into equity (Yan, 2000). The degree of capital injection into IJVs determines ownership control, i.e., equity control. Child (2002) stratifies equity control into three categories: majority-controlled, jointly-controlled, and minority-controlled structure. If equity is evenly distributed between parent firms, then the IJV has a jointly-controlled ownership structure. If not, the IJV has either a majority-controlled or minority-controlled structure by the foreign parent firm.

A generally accepted view of majority-controlled ownership structure is that this structure can lead to better IJV performance than the other two structures because majority-controlled ventures offer a more stable environment, which benefits business development (Killing, 1983). This logic is broadly tested and accepted, even though Beamish questioned Killing's results (Beamish, 1984). For instance, studies of IJVs in China show that both foreign and Chinese majority-controlled ventures have better performance than jointly-controlled ventures (Li et al., 2008). Some researchers specify that it is foreign firms' majority equity control that enhances IJVs' survival in an overseas market (Dhanaraj & Beamish, 2004). Other researchers, nevertheless, disagree. Blodgett failed to find that ownership affects the stability of IJVs (1992), and Kogut failed to confirm that majority ownership enhances IJV

performance (1988). The failure of majority-controlled IJVs, according to some studies, is caused by the opportunistic behavior (Geringer & Woodcock, 1989; Lyles & Salt, 1996), which is believed to be more severe in emerging markets such as China (Luo, 2007a, b). Opportunistic behavior could be reduced by changing the organizational form to, for example, a wholly-owned subsidiary (Hu & Chen, 1994). It is argued that when there are less government constraints on a wholly-owned subsidiary by foreign firms, we would observe more IJVs transformed to wholly-owned subsidiaries (Hu & Chen, 1994). In a study of U.S. initiated IJVs abroad, foreign parent firms (U.S. firms) with a majority-controlled structure were found to follow this pattern as a way to cope with the opportunistic behavior in uncertain business environments (Contractor, 1990). However, a wholly owned subsidiary is not without cost. For example, wholly-owned subsidiaries by foreign firms in China lack the capability of tapping into local knowledge and taking advantage of local distribution networks, and generate costs that are greater than the benefit gained from the unity of control (Yan & Gray, 1994).

The inconclusive results of studies of majority-controlled IJVs stimulated examinations of jointly-controlled ownership structures (Choi & Beamish, 2004; Luo, 2007b). Luo studied 188 IJVs in China and found that the environmental volatility of emerging economies increases opportunistic behaviors (2007a), under which a jointly-controlled ownership structure helps to reduce unwelcome behaviors through trust building (Luo, 2007b). Under this view, the jointly-controlled ownership structure creates a similar result in reduced opportunistic behavior that a wholly-owned subsidiary aims to achieve, through building trust between parent firms and enhancing goal commonality, which ultimately leads to better IJV performance (Yan & Gray, 1994). Still, the evidence of the effect of cooperation facilitated by jointly-controlled structures on IJV performance is mixed in China (Child, 2002; Hebert & Beamish, 1997). It remains unclear why some jointly-controlled structures fail to generate superior performance than other ownership structures (Li et al., 2008).

IJVs with minority-controlled ownership by foreign parent firms are not common in China (Child, 2002). Foreign firms engaging in this type of ownership structure are perceived as having the least preparation of long-term planning in the Chinese market (Bleeke & Ernst, 1995). Although there are concerns about the issues facing foreign parent firms in this category of ownership structure, there are also positive effects, such as controlling learning costs in uncertain environments (Child, 2002). This may be a lower cost method of examining the viability of investment in emerging economies. We conclude that the result of minority-owned structure in IJVs, at best, needs further empirical testing.

Operational Control

In studies of ownership control, researchers suggest that the level of equity seldom predetermines the level of overall control (Anderson & Gatignon, 1986; Hennart, 1988;

Mjoen & Tallman, 1997). Control can be gained from other critical resources, such as knowledge about specific activities and management (Mjoen & Tallman, 1997), knowledge and ties to the local government (Luo, Shenkar, & Nyaw, 2001), and the ability to staff the key managerial positions (Schaan, 1988). It is evident that interest in exploring other control mechanisms besides ownership has increased. For example, Blodgett (1991) studied management control, Mjoen and Tallman (1997) introduced special activity control (expertise control), Child (2002) and Yan and Gray (1994) emphasized resource-based operational control, and in addition Yan and Gray also proposed daily management control (2001), which is in line with Yan and Gray's operational control (1994).

Operational control is carried out through controlling day-to-day business operations in IJVs, rather than through controlling ownership stakes. Researchers have approached operational control by analyzing: 1) the similarity between the management systems of the IJV and parent firms, as it portrays the power struggle in designing the management structure and procedure; 2) the nationality of the general manager of the IJV, as this indicates which parent firm is making strategic decisions; and 3) the managerial control of the technical and sales departments, which reflects the IJV's daily routines (Child, 2002; Yan & Gray, 1994). For instance, if the management system of an IJV is similar to that of its domestic parent firm, but deviates from that of its foreign parent, then operational control of the IJV is very likely in the hands of the domestic parent firm. Similar to ownership control, operational control is sought to ensure higher performance of IJVs, but research indicates mixed empirical findings. For example, Mjoen and Tallman found that control of daily activities is positively related to perceived performance of the IJV; while control of specific operational activities fails to generate a positive effect on IJV performance (1997). Yan and Gray, in their study of IJVs in China, found that foreign parent firms that controlled management systems were high in performance satisfaction, albeit foreign parent firms that shared operational control with their Chinese counterpart were also high in performance satisfaction (1994).

It is interesting to note a discrepancy between ownership and operational control (Child, 2002; Schaan, 1983, 1988). For example, one study showed that some foreign parent firms with a majority-controlled ownership structure had limited operational control in their IJVs, in which the domestic Chinese firms staffed the key managerial positions, made technical decisions and ran daily operations (Child, 2002). Schaan also observed that parent firms with a minority-controlled ownership structure could run IJVs conforming to their own interests by gaining control over specific operational activities (Schaan, 1983, 1988).

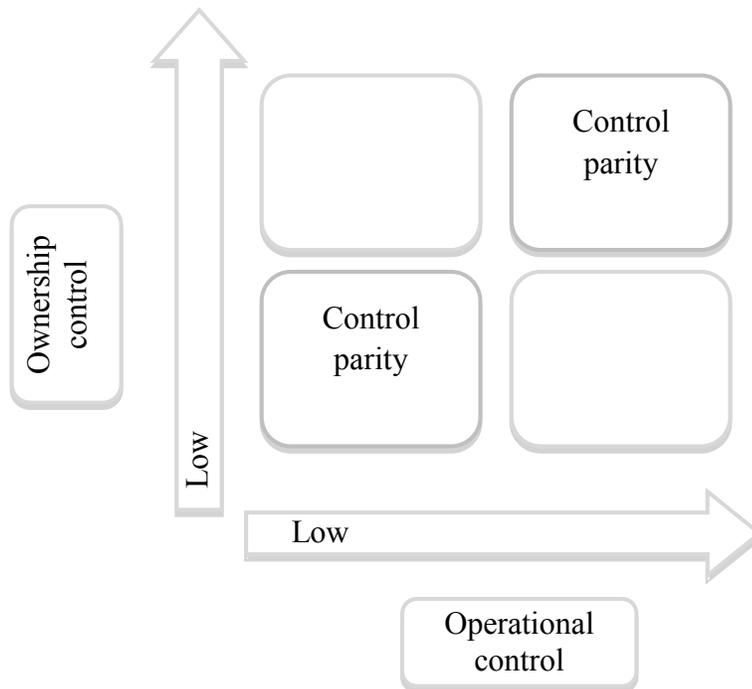
Control Parity

We suggest combining ownership and operational control together to understand IJV performance. This is a tantalizing research area given that previous empirical studies indicate the existence of discrepancies between ownership and operational control (Child, 2002;

Schaan, 1983, 1988), and theoretical work addressing this discrepancy is still limited (Gering & Hebert, 1989; Yan & Gary, 1994, 2001).

We argue that ownership control and operational control are related to each other, and only when both mechanisms are considered proportionately to each other in the decision-making process, a situation we term as control parity, conflicts of interest and opportunistic behaviors can be better managed, resulting in improved IJV performance. Control parity, in essence, reflects a balanced relationship between ownership and operational control. It is a fit between the two mechanisms: A high level of ownership control should be matched with a high level of operational control, and a low level of ownership control with a low level of operational control (See Figure 1).

FIGURE 1. THE REALIZATION OF CONTROL PARITY



In Figure 1, when the foreign firm has obtained a majority-controlled ownership structure, the foreign firm should establish a high level of operational control that is in proportion to its ownership control. This structure would enable the foreign parent firm to maintain proper supervision over daily operations, which facilitates an early identification of managerial problems and a timely response to reduce conflicts and opportunistic behaviors by the local parent firms.

Disproportionate control can increase the propensity to fail. On the one hand, for foreign parent firms, too little operational control coupled with a majority-controlled ownership structure creates inevitable weaknesses in fighting the opportunistic behaviors of their domestic counterparts. It is easier for domestic parent firms to manipulate IJVs' daily business activities conforming to their own interests, which may not be shared by the IJV or by their foreign counterparts. This is a problem of "sleeping partner" when the capital providers are outside the management of daily business (Child, 2002). It perhaps explains why foreign parent firms' China strategy characterized as "relying on capital investment to enter the market" will not work (Bai, 2008; Wang, 2008). On the other hand, for foreign parent firms, concentrated operational control coupled with a minority-controlled ownership structure is also problematic. In this case, domestic parent firms are discouraged from leveraging their local resources, as the level of ownership fails to empower them in operations (Yan & Gray, 1994).

Proposition 1: Control parity can reduce conflicts and opportunistic behaviors, which leads to better IJV performance.

Earlier research found that obtaining control parity is feasible (Child, 2002). Child studied 20 IJVs in China. He first classified the IJVs into majority-controlled, jointly-controlled and minority-controlled IJVs by foreign parent firms. Then he analyzed the level of operational control under each ownership structure. The results indicated that three of nine majority-controlled IJVs by foreign parent firms were closely operated by the foreign firms, four of seven jointly-controlled IJVs had operational responsibilities evenly shared between parent firms, and one of four minority-controlled IJVs by foreign parent firms was mainly operated by its Chinese parent firm. Nevertheless, the establishment of control parity is not an easy task, as capital providers are often outside management daily business (Child, 2002). This is well captured by a recent joint venture dispute and failure between the French conglomerate Danone and a local Chinese firm in the dairy market Wahaha in 2009 (HangZhou Wahah Group Co. Ltd., 娃哈哈):

In 1994, Danone through its Hong Kong based firm Bai Fuqin approached the general manager of Wahaha, Qinhou Zhou, proposing to establish an IJV in the dairy market with USD \$450 million equity from Danone (Bai, 2008). In 1996, the IJV was formed among three companies, Wahaha (owned by Hangzhou municipal government with Zong as the managing director), Bai Fuqin and Danone (Dickinson, 2007). In 1998, Danone acquired Bai Fuqin, obtained 51% of the IJV and became the largest owner. In the following years, the IJV grew quickly and contributed roughly five to six percent of Danone's global profits in 2006, and in the meantime, Wahaha became the largest beverage producer in China and the fifth largest worldwide, with sales revenue of US\$1.4 billion (Krug & Rothlin, 2009). Initially, only the five best performing subsidiaries of Wahaha joined the IJV. By 2007, the original five venture companies had grown into 39 venture companies, besides which, Wahaha had also created more than 40 non-joint venture companies that sold the same products under the

same Wahaha trademark (Bai, 2008). The creation of non-joint venture companies was not an issue until 2005, and Danone insisted on controlling 51 percent of the non-joint venture companies for a payment of US \$513 million in 2006. Zong refused the offer, complaining Danone's price was too low. Bitter verbal attacks started and soon escalated into high-profile media wars and fights about foreign monopoly, protectionism, and national economic security (Krug & Rothlin, 2009). The dispute continued until September 30, 2009, when Danone withdrew from the IJV for a monetary settlement that both sides had agreed upon. The once highly praised IJV dissolved in bitterness.

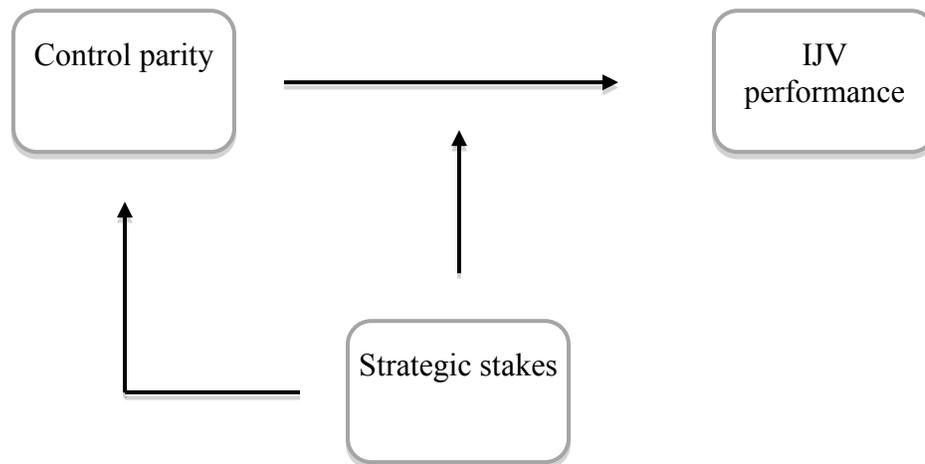
Various reasons for the failure of the IJVs have been suggested, such as trademark transfer problems and the hasty relationship between Danone and the domestic firms (Krug & Rothlin, 2009). While recognizing that individual managerial styles could influence the IJV's operation, we also believe a lack of control parity is another unexplored major reason, as the unbalanced relationship made it difficult to manage conflicts and opportunistic behaviors over time. That is, the ownership control of Danone (51%) failed to generate a corresponding responsibility in operational areas. Danone's operational control only related to: 1) decisions about producing bottled water and dairy products; and 2) providing technical support for the production (Zhang & Van Deusen, 2010). Danone was not responsible for selling the products, nor building up management systems and processes. Specifically, the general manager was Qinhou Zong from Wahaha, who was also the chairman for all the JV companies with executive power, while Danone was not able to appoint a single executive into any senior management positions (Lu, Tao, & Wei, 2008). At the same time, Zong drove away whoever was sent by Danone, leaving Danone with little impact on the structure of management system (Lu et al., 2008). As the chairman of the IJV, Emmanuel Faber from Danone recalled that, "He (Zong) operates in a very entrepreneurial way, making a lot of decisions on his own." Danone controlled technical support, but its role in providing this service is dubious, as the degree of technology required in the dairy production is hard to qualify and quantify, and is perhaps less sought after than that in other industries such as telecommunications (Wu, 2007). To sum up, Danone's contribution to the IJV's operation was rather limited compared to Wahaha. If Danone was more involved in daily operations of the IJV, the damage caused by competing with Wahaha's non-joint venture companies perhaps could have been detected and stopped earlier.

A MODEL OF CONTROL PARITY

A variety of contingency variables can influence the relationship between control mechanisms and IJV performance. For example, variables such as goal congruency, IJV experiences, size of the firm, leadership turnovers, etc. can change the ownership control effect on IJV performance (Guidice & Cullen, 2007; Lowen & Pope, 2008; Pangarkar & Klein, 2004). These studies focus on analyzing effects of one specific control mechanism, and while we examine two control mechanisms. We propose to analyze strategic stakes in our model. The model describes that strategic stakes can influence the construction of control

parity and moderate the relationship between control parity and IJV performance (See Figure 2).

FIGURE 2. THE MODEL

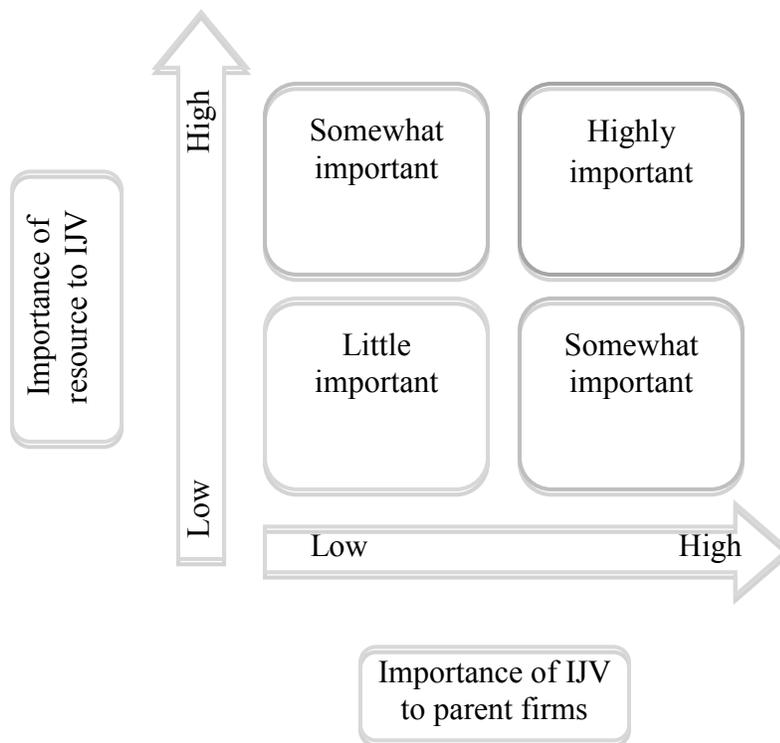


The concept of strategic stakes is built upon the argument of the relative bargaining power between parent firms (Yan & Gray 1994), where bargaining power is defined as “*the bargainer’s ability to favorably change the bargaining set to win accommodations from the other party and to influence the outcome of a negotiation*” (1994 : 1480). It addresses the ability of bargainers to mobilize resources (Bacharach & Lawler, 1984), and these resources can be financial capital, relational capital and knowledge. Studies found that the relative bargaining power between parent firms determines initial and subsequent operational controls (Yan & Gray, 1994), and can even make the original bargain obsolete and thus change the subsequent control structure (Hamel, 1991; Vernon, 1977). We continue this line of argument, and use the concept of strategic stakes to capture the component of resource-based bargaining power.

Based on bargaining power, the concept of strategic stakes describes situations where parent firms contributing the most critical resources are more able to exercise control over IJVs (Chi, 1994; Geringer, 1991; Mjoen & Tallman, 1997; Yan & Gray, 1994; Yan & Child, 2004). Meanwhile, the concept also reflects situations where IJVs contributing the most critical resources to parent firms’ performance will increase those parent firms’ desire to obtain control – a deviation from the bargaining power’s argument (Yan & Gray, 1994), which will be illustrated in the following. In essence, strategic stakes focuses on both the capability to control due to resource provisions, and the desire to control, an element that could potentially change the actual exercise of control (Geringer & Hebert, 1989), making strategic stakes more suitable than bargaining power in our analysis.

The concept of strategic stakes includes two factors: 1) the relative importance of resource provision to IJV performance, and 2) the relative importance of the IJV to parent firms' performance. The degree of strategic stakes depends on the combination of the two factors. Specifically, a parent firm has a high level of strategic stakes when both factors are perceived as highly important; the parent firm has a medium level of strategic stakes if either factor is perceived as highly important; and the parent firm has a low level of strategic stakes when both factors are perceived as being of little importance (See Figure 3).

FIGURE 3. THE STRATEGIC STAKES



The first factor is the relative importance of resources collection. According to resource dependence theory (Pfeffer & Salancik, 1978), parent firms are the fundamental factors behind the success of IJVs (Luo, 2007b; Pfeffer & Nowak, 1976; Saxton, 1997) because parent firms are sources of knowledge that generate abnormal returns for IJVs (Kogut & Zander, 1993). The greater the resource investment by a parent firm, the greater control by the parent firm over that investment (Yan & Child, 2004). At the same time, the greater the relative importance of a resource, the greater propensity for parent firms providing that resource to obtain control over that resource and over the IJV (Mjoen & Tallman, 1997; Yan & Gray, 2001; Yan & Child, 2004). This is in line with the argument of bargaining power that parent firms who contribute strategically important resources can enhance their

bargaining power and ultimately their management control (Blodgett, 1991; Harrigan & Newman, 1990). The relative importance of resources can also be used to explain partner selection in IJVs. For example, Gerginer (1991) found that an increase in the perception of resource importance to IJV performance is positively associated with an increased weighting of selection criteria associated with that resource.

According to the first factor, the importance of financial resources should be examined in a relative sense. Other resources can be perceived more important than capital investment to IJV performance. In one study, Luo et al., (2001) found that when local knowledge is treated more important than financial resources, the parent firms providing local knowledge are able to leverage their bargaining power through that knowledge to seek higher levels of control in IJVs. In another study, Li et al., (2008) identified cases where Chinese parent firms lacked capital that was considered critical to the success of IJVs, and foreign parent firms who successfully entered the Chinese market with sufficient capital therefore obtained more control of the IJVs than their Chinese counterparts. Duan and Chuanmin (2007) conducted a three-case analysis of IJVs between parent firms from China and the U.S. In all three cases, technological capabilities were regarded as one key resource that all three IJVs needed. The U.S. parent firms gained more control than their Chinese counterparts by having access to technology, even though none of the American parent firms acquired a majority ownership stake in their IJVs respectively.

The second factor is the relative importance of the IJV. From a bargaining power perspective, the relative importance of an IJV to parent firms' performance can, however, negatively affect their control of the IJV (Mjoen & Tallman, 1997; Yan & Gray, 2001). This is because when parent firms believe the IJV to be of great importance to them, they negotiate strongly for control. The process exposes them to greater risk and renders them more dependent on their partner, which results in worse negotiations, and consequently less control than they would have wanted (Yan & Gray, 2001). Logically appealing, we argue differently using resource dependence theory (Pfeffer & Salancik, 1978). When the IJV becomes more strategically important to parent firms' own performance, they would have a stronger desire to seek and increase control. Although the negotiation process may get worse as Yan and Gray described (2001), there are possible ways to alter this situation. For example, parent firms could add resources that are more strategically important to the IJV, which gives them a stronger bargaining power to negotiate for better control (Blodgett, 1991); or, as indicated by the earlier IJV example between Danone and Wahaha, parent firms could even violate agreements to actually enhance their control, resonating an old saying, "*Where there is a will there is a way.*" A strong desire to seek control can change the realignment.

In short, increased relative importance of the IJV to a parent firm's performance would heighten their incentive to seek control. In a hypothetical example where the ownership structure of an IJV determines how much revenue from the IJV is sent back to each parent firm for further consolidation, the parent firm with a higher ownership stake would get more

of the revenue generated by the IJV (Duan & Chuanmin, 2007). Assuming there are no governmental capital restrictions, if the IJV revenue contributes to the performance of the Chinese parent firm more than that of the foreign parent firm, then the Chinese parent firm would be more motivated than its counterpart to control the IJV operation. It is important to note that, even when the foreign parent firm has a majority-controlled ownership and therefore gets more of the revenue generated by the IJV, the relative importance of the IJV to the foreign firm may still be low. This is because the contribution of the IJV to the foreign parent firm as a percentage of the total revenue is relatively small.

Effects of Strategic Stakes

In the model (Figure 2), the concept of strategic stakes influences the establishment of control parity and moderates the relationship between control parity and IJV performance. The model follows the logic where strategies influence organizational structure and ultimately affect firm performance (Geringer & Hebert, 1989; Guidice & Cullen, 2007; Yan & Gray, 1994). The nature of resources forms an important strategic influence. For example, if resources are strategically important to IJV performance, then they can strengthen the bargaining power of resource providers, and lead to changes in control structure in IJVs (Yan & Gray, 1994). The control structure in IJVs also changes over the life span of the venture as the relative importance of the IJV to parent firms' overall strategies can be reduced or phased out over time (Barlett & Ghoshal, 1986; Harrigan & Newman, 1990).

According to the model, the concept of strategic stakes sheds light on the design of control parity. Using IJVs in China as an example, if the degree of strategic stakes for foreign parent firms is higher than their Chinese counterparts, foreign parent firms would be better off by increasing both ownership and operational controls to ensure IJVs' operation conforming to foreign parent firms' interests. If foreign parent firms in this case have only established a minority-controlled ownership structure with a low degree operational control that is proportionate to the ownership stake, there is little protection for foreign parent firms when they need to battle opportunistic behavior of their Chinese counterparts.

Proposition 2: Parent firms with high strategic stakes should establish control parity by having a majority-controlled ownership structure and a high level of operational control that is proportionate to the ownership stake.

If the degree of strategic stakes for foreign parent firms is low, foreign parent firms would be better off by limiting both ownership and operational control. Otherwise, there is little economic justification. That is, the cost of control is higher than the benefit from it. For example, there are financial capital investments to secure ownership control, and human

capital investments to secure operational control. The investment decision may fail to optimize resource utilization where they are needed most in areas with higher strategic stakes. *Proposition 3: Parent firms with low strategic stakes should establish control parity by having a minority-controlled ownership structure and a low level of operational control that is proportionate to the ownership stake.*

When foreign parent firms have established control parity with a majority-controlled ownership structure and a corresponding high level of operational control, the degree of strategic stakes of foreign parent firms can further moderate the relationship between control parity and IJV performance. This is because a high level of strategic stakes will further motivate foreign parent firms to operate more vigilantly in the daily businesses.

Proposition 4: When one parent firm has a majority-controlled ownership structure and a high level of operational control that is proportionate to the ownership stake, the degree of strategic stakes of this parent firm will enhance the relationship between control parity and IJV performance.

DISCUSSION AND CONCLUSION

Studying ownership structure of IJVs alone has generated mixed results, and we aim to address the inconclusive results by analyzing ownership and operational control concurrently. We propose that the establishment of control parity defined as operational control in proportion to ownership control can help to solve this problem. The design of control parity, however, depends on the level of strategic stake facing parent firms that can also moderate the relationship between control parity and IJV performance. Understanding strategic stakes enables parent firms to choose a proper design between ownership and operational controls. We aim to achieve two goals in this study. First, a balance is needed between ownership and operational controls in IJVs. This is because a balanced relationship can enhance IJV performance. As a result, the paper departs from earlier studies that promote a specific type of ownership structure (majority-, jointly- or minority-controlled structure) for practitioners (Dhanaraj & Beamish, 2004; Killing, 1983). We argue that all three types of ownership structure can work as long as a proportionate relationship could be achieved and maintained between ownership structure and operational control.

Second, we hope to increase research interests in studying the relative importance of resources in IJVs through the concept of strategic stakes. This concept enables us to examine the importance of resources in a comparative manner. For example, financial resources are critical in instrumentally developing the market; however, other resources may become more important than financial investment over time. Research shows that tangible resources such as financial resources are an inferior source to create competitive advantages in the long run

(Irland, Hitt, & Vaidyanath, 2002); and their relative importance falls behind intangible resources, such as tacit knowledge dealing with the local government and other institutional infrastructures. That is, as the most fungible, least tacit, of the assets, financial resources are considered to have little power in IJVs where tacit knowledge embedded about the local environment, networking, distribution and marketing skills have higher influence (Blodgett, 1991). Without this tacit knowledge, businesses suffer competitive disadvantages in the Chinese market, and eventually exit the market (Chen, 2001; Yan & Gray, 1994). For instance, in the earlier example of Danone-Wahaha, without the brand name recognition generated by Wahaha and distribution channels established by Wahaha, the joint venture between Danone and Wahaha would not have been near as successful in the Chinese market in its early days.

The concept of strategic stakes also addresses the importance of IJVs to parent firms. Again in the example of Danone-Wahaha, the importance of the IJV seems to be different for the two parent firms. During the 1990s and 2000s, Danone adopted a market expansion strategy through establishing IJVs in fast-growing emerging economies like China, India and Pakistan (Krug & Rothlin, 2009). For example, besides starting the IJV with Wahaha in 1996 in China, Danone systematically developed other alliances with Guangzhou Milk in 1987, Wuhan Dongxihu Beer in 1996, Robust in 2000, Bright Dairy in 2001, Aquarius in 2004, Huiyan and Mengniu in 2006 (See Appendix). Most of these Chinese firms were direct competitors of Wahaha in the nutritional drink market (Zhang & Van Deusen, 2010). It is possible that these alliances may not share the similar importance to Danone, but the failure of one of these alliances would have a limited impact on Danone's performance as the risk has been spread out. For Wahaha, Danone was the only foreign partner at that time in the domestic market. The overall IJV performance was critical for Wahaha at a time when it was to conquer the increasingly competitive domestic nutritional drink market (Zhang & Van Deusen, 2010). The IJV between Wahaha and Danone is more important for Wahaha's performance than for Danone. It is thus no surprise that Wahaha violated its earlier agreement with Danone, and established nearly 40 non-joint venture companies, using the same brand name as the joint venture companies and creating direct competition with Danone.

Analyzing strategic stakes can better prepare foreign parent firms' entry strategy. For example, a high level of strategic stakes facing the Chinese domestic parent firm will make it difficult for foreign firms with a majority-controlled ownership structure to acquire a high level of operational control. In this situation, foreign firms perhaps are better off by setting up an exit strategy upon entering the domestic market.

Limitations and Future Research

There are limitations in this study. First, this paper has focused on examining strategic stakes that shape the behavior of parent firms in seeking control. We recognize that other

contingency variables influence the effect of ownership structure as well, such as goal congruency, IJV experiences and size (Guidice & Cullen, 2007; Pangarkar & Klein, 2004). Lowen and Pope (2008) used survival analysis techniques and found that parent firms' leadership turnover, size differential, host and parent country's political stability and partner experience significantly contribute to the IJVs' life span in addition to the relative ownership levels. How these variables interact with strategic stakes could be an interesting future research area. Second, this study focuses on formal control structure as exemplified by ownership control and operational control. There are subtle control mechanisms beyond formal control structure, and future studies should examine subtle control mechanisms to generate more insightful understanding on control issues in IJVs. Despite these shortcomings, the study has contributed to the research of IJVs in emerging economies such as China. It suggests that establishing control parity between ownership and operational control is more critical than deciding the form of ownership structure.

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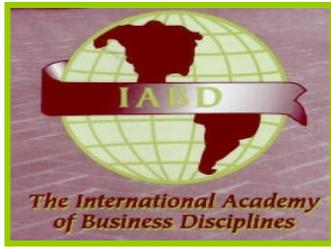
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APPENDIX

Danone's China Expansion

Year	Danone's capital investment	Partner/collaborator	Resultant entity
1987	Not known	Guangzhou Milk 广州市牛奶公司	Guangzhou Danone Yogurt 广州大能酸乳酪
1996	From 25.5% to 51%	Hangzhou Wahaha Group 杭州娃哈哈集团	Initially five subsidiaries, expanded to 39 by 2007.
1996	54.2%	Wuhan Dongxihu Beer 武汉东西湖啤酒	Wuhan Dongxihu Beer 武汉东西湖啤酒集团
2000	92%	Robust 乐百氏	Robust 乐百氏
2001	From 5% to 20.05%	Bright Dairy 光明乳业	Bright Dairy 光明乳业
2004	50%	Aquarius 正广和	Aquarius 正广和
2006	24.32%	Huiyuan 汇源	Huiyan 汇源
2006	49%	Mengniu 蒙牛	Mengniu 蒙牛

Source: Chinadaily, Danone's quick expansion in China, 2007-06-15, 15:43.



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