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Managing Joint Venture: Control, HRM, and Performance

-The case study of Nankou SKF, a Sino-Swedish Joint Venture-

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“To the memory of my uncle, Mustafa AKDEVE, who did much for me, and left me alone.”

Erdal AKDEVE

“To my mother MU Fenglan, father SONG Yuanchang, and my husband WANG Tao, for the endless love and support they give me.”

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Erdal AKDEVE & Xi SONG

Abstract

This research study concerns the management of economic cooperative organization in the form of international joint ventures (henceforth referred to as IJVs) in a less industrialized country (LIC) in a transition economy age with special reference to the People's Republic of China (the PRC). To manage a form of IJV is more difficult than a wholly owned firm is due to its complex form of organization. IJVs are set up by more than one partner and are operated by two parts with different objectives and expectations. It is, therefore, of great importance that the link between the venture and the parents is clearly described and human issue in the venture is properly scrutinized.

A present example is a Sino-Swedish joint venture, Nankou SKF JV. This thesis presents two problem areas in the case of Nankou SKF JV. An inclusive review of the theoretical framework relevant to the actual case, including “joint venture control” and “human resource management (HRM) practices” is presented. Based on empirical evidence and the theoretical framework, the analysis chapter presents an examination of two problem areas: control issue and HRM practices, two determinants for joint venture performance.

Key Words: International Joint Ventures, Sino-Foreign Joint Ventures, Joint Venture Control, and Human Resource Management Practices

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Part I INTRODUCTION

1.1. Background

1.1.1. Point of Departure

Emerging economic regions have been playing a critical role in global economies. Since their market liberalization and privatization policies were formally set forth, these areas have attracted many foreign investors (United Nations Conference on Trade and Development [UNCTAD], 1997). As a leading recipient of foreign direct investment, China received more than \$45.6 billion in 1998 and almost half of the Fortune 500 companies were established in or around Shanghai. The most popular form of entry into China is the international joint venture (IJV). In 1994, approximately 64% of total foreign investment in China was in the form of equity joint ventures.

The scale of these investments suggests that international businesses visualize an enormous, largely untapped market potential and that IJVs are a preferred form of entry into China because they reduce risk, enhance local acceptance, and create synergy from increased economies of scale and scope (Ding 1997). Despite their many potential users and benefits, however ventures frequently go awry and create problems. A large proportion of JVs are regarded as unsuccessful by one or both parents. The failure rate of JVs in less industrialized countries (LICs) was approximate 45-50%, rising when one of the parents was a government agent (Beamish, 1988). 61% of executives were dissatisfied with their JVs – a significantly higher figure than the 36% recorded for JVs in ICs. This is an indication to the effect that JVs in developing countries are more apt to face serious, sometimes indissoluble problems (Halbauer, 1996). In the People's Republic of China (the PRC), many IJVs seem to have run into difficulties as well. In 1986, the number of IJV contracts approved declined considerably. However, these researchers neglect that there are still many Sino-foreign joint ventures that have achieved success. Of the 120 Sino-U.S. joint ventures studied by the National Council for U.S.-China Trade (1987), only “a handful” appear to have failed. More recently, surveys, reported by Zhou (1997), suggest that most foreign investment companies are satisfied with the performance of their joint ventures, as they are meeting the financial objectives originally envisaged.

Running a joint venture successfully is a challenge. The basic cause of joint venture problems is that a joint venture is a complexly united entity joined by more than one parent in a host country. Because of this basic characteristic,

therefore, in this study, considerable attention has been drawn to the control and human resource management issues in joint ventures.

The management control of joint ventures is problematic one, because there are complications that are embedded in both the inter-partner and the parent-joint-venture relationship. The main purpose of control in the context of joint ventures stems from the desire of each parent company to ensure that the benefits it seeks are actually realized. Therefore, effective control might be crucial to accomplish the parents' objectives and achieve the desired performance.

Human resource management (HRM) can be problematic as well. The problems vary and may include: unmotivated workers, low work efficiency, lack of horizontal cooperation among departments, etc. As Likert (1967) points out, every aspect of a firm's activities is determined by the competence, motivation, and general effectiveness of its human organization. Of all the tasks of management, managing the human component is the central and most important task, since everything else depends upon how well it is done. In complex organizations, such as IJVs in China, involving and motivating people with different cultural backgrounds, competences, and interests by means of effective HRM practice is essential for the success of joint venture. Without people, the joint venture would not have growth, and without growth, there would not be continuing performance and success.

1.1.2. A brief review of Existing studies on the management of IJVs

The IJVs phenomenon has attracted a lot academics and practitioners to explore this incomplete field. This advanced research might be categorized into three main dimensions: design, management, and performance of the IJVs. In the design dimension, quite a lot of attention has been put on strategic issues (such as environmental investigating, strategic plan, partner selection, entry timing, and etc.), and technical issues (such as regulatory, finance, agreement, law, etc.). In the management dimension, ownership structure, management control, the relationship between partners, the relationship between partners and host government, and staffing are still major concerns for academics and practitioners (Killing, 1982, Beamish 1993, Ding 1997).

Given the relative importance of JVs in LICs, amount of research are shifting into ways of improving JVs performance since the performance is particularly significant in the strategies implementing of parent companies and survival of JVs. The problems of managing a joint venture could emerge from the external factors, such as uncertain political environment, economical and socio-cultural preconditions, imperfect economic system, governmental interference,

bureaucracy, foreign exchange problems, tight laws and regulations, etc. Beyond that, these problems could emerge from internal management problems as well, such as the relationship between partners, the relationship between parents and joint venture, and human resources management etc. A number of studies point to severe internal management challenges, in particular:

- The relationship varieties of management control (such as, ownership, etc.) and performance (Yan, 2000; Calantone and Zhao, 2001).
- Managing JVs in the P.R. China from cultural perspectives (Child and Lu, 1996; Child and Stewart, 1997),
- Managing human resources (Cyr, 1995; Shenkar, 1990; Shenkar and Zeira, 1987; Budhwar and Debrah, al, 2001).

In our study, we will look at factors affecting internal management issues in joint ventures in China, because these external problems are very broad and could be hard to influence. On the other hand, as we observed in our case study, the significant reason behind the failure of joint ventures might be that joint ventures with a relatively shorter experience are not expected to have sufficient skills to deal with the above problems in the early stage of venture. The accumulated business experience of joint ventures increases their capability of reaching the expected performance. After such gradual accumulation of knowledge and the experience of dealing with external factors, the internal management factors will emerge as crucial factors for the continuing performance of joint venture.

1.2. Purpose of the study

To run a joint venture successfully, the organization and individual managers must go through a certain learning process. Merely knowing the influencing factors and rationales that operate in a joint venture is not sufficient. An interesting question here is how to shorten this learning process. The volatile competition does not allow for tolerance of a long learning process, as the ultimate consequence of this may be a loss of competitiveness. The main purpose of this thesis is to explore the knowledge that can extend this learning process. Our cooperative company – SKF Group, also interests that. To approach this main purpose, a case study of Beijing Nankou SKF Railway Bearings Co., Ltd., one of six joint ventures of SKF in China, has been conducted to explore how a multinational corporation (MNC), operating a joint venture in China, reaches the expected performance through effective control and systematic HRM practices.

We chose China as the location of investigation for the analysis. With its economic transition and the large amount of inward investment made by foreign multinationals, we believe that China provides a good research environment for investigating the relatively management process of international joint ventures made by foreign multinationals. Few studies have examined the relationships between performance of joint ventures, control of partners and human resource management in China simultaneously, although the literature on international joint ventures in China and on Chinese enterprises has been rapidly increasing. The present study, therefore, provides new insights on the improving performance of international joint ventures in emerging regions, developing countries, in general, and in China in particular.

For our individual intention, studying the phenomenon of international joint venture is the complex and challenging task that concerns different management concepts. We will enhance and broaden our knowledge and understanding of international management through this study, which integrates empirical and theoretical research. Of course, this thesis is also written in order to graduate from Master of International Management at Integrated Programs at Gothenburg University. For us, the meaning of writing this thesis is improving our knowledge rather than graduating.

1.3. Problem Analysis

This part is a starting point and general discussion of our problem area in this thesis. Discussion points in this part offer an introduction for the thesis. We will, in the initial part of the problem analysis, present a broad discussion of why joint ventures are more challenging to manage. Later on, we will go more deeply into the management problems of IJVs, as they relate to specifically to the Chinese context.

1.3.1. Why are the JVs difficult to manage?

Joint ventures are very challenging. Management issues in joint ventures are extremely complex, and require an ability by managers to create a cooperative relationship between JV partners when multiple national cultures, corporate cultures, and partner strategies are combined (Cyr, 1995).

Killing (1983), in a study related to JV management and control, attempts to produce much fulfilled answer to his question: “why are joint ventures difficult to manage?” He argues that this difficult condition of JVs is not because joint ventures are given more difficult tasks to perform, but because they are a much more difficult form of organization to manage well. In a nutshell, Killing (1982; 1983) concludes that the basic cause of the problem is that joint ventures have more than one parent. According to him, having two parents makes joint venture formation problematic. Joint ventures’ organizational politics are much more complicated, because joint ventures have multiple parents (Anderson, 1990). Similarly, Halbauer (1996), in her study of managing Sino-Foreign JVs, presents a characteristic of the joint venture “a JV set up by a partner (MNE) from an industrialized country (IC) and a local partner from a less industrialized country (LIC) calls for the performance of a different task because of distinct differences between partners from two countries with distinct economical and industrial structures.” The parents, unlike shareholders of a widely held public corporation, are visible and powerful and can and will disagree on just about anything: how fast the joint venture should grow, which products and markets it should be organized; how it should be organized; and perhaps even what constitutes good or bad management (Killing, 1982; 1983).

Killing (1983) discusses two specific areas within a joint venture where the problems of multiple parents can make themselves known. One is at the board level. The board of directors of a joint venture contains representatives from each parent and it is here that differences in priorities, direction, and perhaps values will emerge (Killing, 1983). The result can be confusion, frustration, possibly bitterness, and a resulting slowness to take decisions. Killing (1983),

in his study demonstrates these problems, which a joint venture board can present to even the most experienced general manager.

The second problematic area is the venture's staffing. Naturally, joint ventures that draw functional managers from both parents are more difficult to manage than those that do not (Killing, 1982). Staffing from both parents would hinder the development of a core skill. According to Killing, managers of international joint ventures may not only have communication problems because of language barriers; they may also have different attitudes toward time, the importance of job performance, material wealth, and the desirability of change. In fact, few ventures use two general managers, one taken from each parent and each manager is given the mandate both to manage venture and look after his parent's interests (Killing, 1983). Not surprisingly, the working relationship between two managers in this situation tends to be strained, cumbersome, and inefficient (Killing, 1983). Problems of dual parent staffing arise more frequently at the functional management level. If a joint venture has been formed to combine the technical knowledge and skills of a foreign parent with the market and financial knowledge of a local parent, the venture will often contain engineering and production managers supplied by foreign parent and financial and marketing managers supplied by local parent (Killing, 1983).

In addition, Halbauer (1996) portrays the role of joint venture general manager (JVGM) in order to clarify the difficulty of the managing of joint venture; "A JVGM has to play a different role: he must accommodate the interests of two parents, each with different expectations; and he has to face a great deal of ambiguity in terms of defining both parent's criteria of success and must deal with issue of commitment and communication between partners." Indeed, general managers of JVs compared to managers in wholly-owned subsidiaries must show sensitivity to the parent companies' differences in culture, management style and expectations and that staff from parents constitute two sets of resources and skills (Halbauer, 1996).

1.3.2. Major Management Problems for IJVs in the PRC: A Global Perspective

IJVs are unique and problematic in their combination of two major hurdles: multiple national affiliations, and multiple ownerships (Shenkar & Zeira, 1987). Multiple national affiliations means that IJVs bring together parent companies which are anchored in environments differentiated by culture, political, economic, and legal systems; while multiple ownership means that joint ventures are owned, and often managed by at least two parent firms (Shenkar, 1990). Thus, IJVs are probably problematic to manage. Shenkar (1990), in his study of Western and Hong Kong joint ventures in the PRC,

presents some important points when discussing management problems of IJVs in the PRC.

The Board

The Board of Directors has a particular importance in all IJVs. Because of the multiplicity of parents' headquarters and because of their frequently conflicting objectives, the Board tends to take over various managerial functions, serving as a buffer to conflicting demands. In the PRC, the Joint Ventures Law stipulates that 'the Chairman of the board shall be appointed by the Chinese participant and its vice-chairman by the foreign participant'. However, this division of responsibilities may be of little consequence in the case of decision-making by consensus, a process applied according to The Joint Venture Regulations in critical cases, e.g. merger or termination (Shenkar, 1990). The Board's decision-making is frequently cumbersome, as is the case in IJVs worldwide (Sullivan & Peterson, 1982). According to Shenkar, this problem tends to be more serious in the PRC due to the newness of the Board for the Chinese and because of bureaucratic interference. Another block for the Board's work is the right of union representatives to attend Board Meetings, which comes from the Joint Venture's Law stipulation. This adds to the weight of the Chinese party and brings about a feeling of isolation on the part of the foreign members of the Board (Shenkar, 1990).

Managing the Venture

Although the Joint Venture Law specifies which senior positions should be filled by Chinese and which by representatives of the foreign parent, disagreement may develop around the period of time foreign expatriates remain in the venture before being replaced by PRC personnel (Shenkar, 1990). Also, when the objects of the host and foreign parents are in conflict, each partner tends to minimize the autonomy it allows the managerial team (Killing, 1983; Shenkar & Zeira, 1987; Shenkar, 1990). However, because of the limited duration of all IJVs in the PRC, the foreign parent may be even more reluctant to a broader range of data and training to the PRC managers beyond what is explicitly stated in the contract or necessary for day-to-day operation (Shenkar, 1990).

Managing Human Resources

Joint Ventures are again problematic mostly due to the laws since human resources are bureaucratically and exaggeratedly protected in the PRC. For instance, although Article 39 of the Joint Venture Law specifies that the general manager 'shall have the right to appoint and dismiss his subordinates', such

authority is bound by several factors: First, by the venture's contract, which according to Article 14 must include stipulations regarding 'labor management'; second by the provision in article 91 that matters such as employment, recruitment, and dismissal shall be governed according to the regulations of the PRC on Labor Management in IJVs; third, by the right of the trade union representation assigned to workers (Articles 95-99); and fourth, by a variety of regulations concerning such issues as wage standards and bonuses as well as a host of the local regulations on such matters (Shenkar, 1990).

The problem of surplus workers is encountered by joint ventures in the PRC. The problem may be particularly severe in IJVs that take over operating plants from the Chinese parent. Overstaffing is very common in state enterprises. Since the Chinese government has placed a top priority on reducing unemployment and there is also a traditional pressure to provide jobs for people, local governments and labour unions try to persuade foreign investors to hire more workers than are needed (Tsang, 1994). In an American-Chinese joint venture, the U.S. manager of the venture in Beijing was surprised to find 600 beds in the factory, where employees would nap during working hours, estimating that "out of 3600 employees, 1200 were working while 2400 were loafing"¹. Skilled and qualified staff is also problematic for IJVs in China.

Human resource management is particularly vulnerable to the Chinese legacy of political and bureaucratic interference in enterprise affairs. The politicalization of personnel matters such as selection and compensation sometimes bring about basic problems of discipline and attendance (Shenkar, 1990). When skilled staff is available, the Chinese parent is reluctant to transfer it to the IJV, and would instead prefer to transfer superfluous and less qualified personnel (National Council on US-China Trade 1987)². On the other hand, since years of Maoist indoctrination and a tradition of a centrally-planned economy created a pool of passive, untrained managers with little motivation and initiative (Shenkar, 1990), even if the venture wishes to find staff in its way, it might be difficult. Compensation is a problem due to downward pressure on expatriate salaries generated by Chinese demands for parity of pay to foreigners and Chinese employees holding similar titles (Sullivan & Peterson, 1982).

¹ According to ref. from: Shenkar (1990), this is the Babcock and Wilcox's IJV in Beijing (see also The New York Times, 10 May 1987)

² Ref. from Shenkar, (1990)

1.4. Formulation of Research Questions

Our main problem is to examine how an MNC operating joint venture in China reaches the expected performance by effective control and systematic HRM practices. In order to analyze this problem area and fulfill the purpose of this thesis, we decided to divide main problem into two problem areas. We believe this will also help reader follow the way our process has progressed. (See Figure 1)

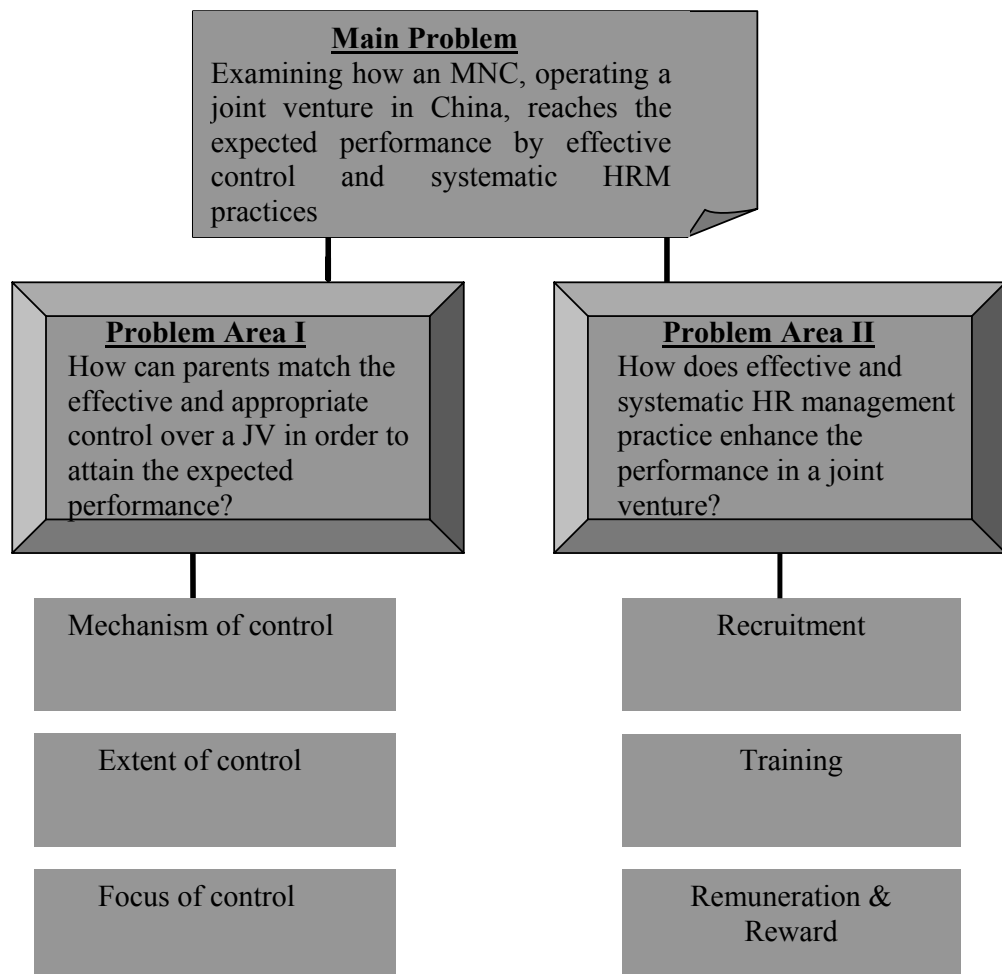


Figure 1: Problem areas

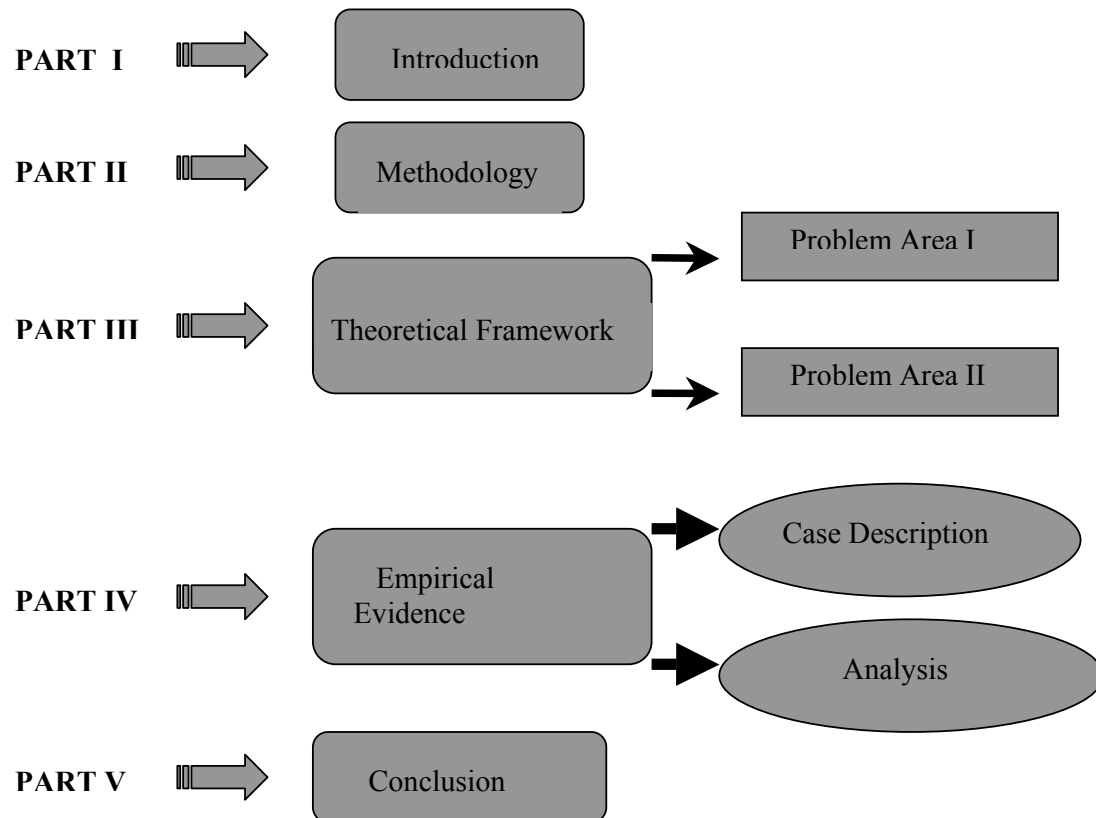
The first problem area focuses on joint venture control. It should further enlighten our readers as to how parents match the effective and appropriate control over JV in order to attain the expected performance. Control plays an important role in the capacity of a firm to achieve its goals. Due to organizational complexity of joint venture, to exercise control is more

important for parents. By employing various control mechanisms, the parent firms influence the joint venture to behave in ways that lead to the attainment of the parents' objectives and protect of the parent's interests. The mechanisms of control are the means by which control is exercised. The extent of control is the degree to which control is exercised. The focus of control refers to the area of the joint venture operation over which control is exercised.

The second problem area turns the focus towards the HRM practices that links human issues within joint venture. It focuses on the point of effective and systematic HRM practice, which is to enhance the performance in a joint venture. A key feature of progressive joint ventures is the accomplishment of strategic initiatives through optimal utilization of human resources. However, in our study, the attention is not drawn to the "type" of joint venture that exists, but more specifically, to how HRM can complement or enhance the performance in relation to respective and mutual parents' objectives. For this second problem area we are not going to cover all topics on HRM in joint ventures, because the fundamental consideration about HRM practice is about involving and motivating people to achieve the organization goals. Therefore, we base our research on these two fundamental characteristics in order to explore a systematic and effective HRM practice in terms of managing a joint venture in China. More specifically, the second question will consider the following areas: recruitment, training, and remuneration and reward.

1.5. Outline of the thesis

This part presents the structure of our thesis.



Part II Methodology

“In this chapter the choice of research methods in the thesis is discussed and motivated.”

Our purpose is not to develop a new theory, but rather to apply present theories to practical life. Our case study aims to achieve this connection.

2.1. Research Methodology

The research strategy regards the methods used to analyze the problems or events for a certain area of research. Five major research strategies are mentioned, such as: experiments, surveys, archival analysis, histories, and, finally, case studies. As a method for our final thesis, we have chosen the case study. We have found the case study method meaningful and appropriate as it shed light on fashionable events within real life situations and concerns the how and why forms of research questions. A case study is a study of a specific phenomenon. Case studies are also suitable for increasing basic knowledge concerning a specific problem.

Research Approach

We intend to build an examination on both existing theories and empirical data. In this thesis, our approach towards solving our problem areas is a combination of theoretical and empirical work, an *abductive approach*, which is a combination of an inductive and a deductive approach. The *inductive* method is when you, out of different phenomenon in reality, choose certain theories and models. The *deductive* method is used to form hypotheses that are tested statements about reality, from which the result is reached through a logical conclusion. Our thesis work began with the collection of data and materials, giving us an idea of what theories we wanted to use. Thereafter, we put our focus on our case study where we observed how things worked in real life. This was performed with interviews and observation. Then, we went back to our desks and continued to work with our theories and data collection. Finally, our research built on both the inductive and deductive method, meaning that theory and empirical results are the basis of our work.

Research Method

The case study of SKF Nankou JV has been made using a qualitative method. The qualitative method has provided us with the opportunity to study the selected issues in depth and detail in order to gain a deeper understanding.

Qualitative research focuses on something that cannot be measured, while quantitative research focuses more on figures. Our area of research is hard to measure in figures, and we have therefore chosen to have a qualitative focus. Thus, we have based our case study on interviews and the result is presented in words, not in figures. (Interviews are described in the section of primary data collection.)

2.2. The Case Study

There are different kinds of research designs in case studies: single case designs, multiple case designs, holistic designs, and embedded designs. The single case study is appropriate when it represents the critical case in testing a well-formulated theory (Yin, 1984). A single case study is also preferable when a case represents an extreme or unique case. The multiple case design concerns more than a single case and is appropriate when research is done on independent innovations occurring at different sites. Thus, each site is the subject of an individual case study (Yin, 1984). The difference between the single-case study and multiple-case study is that the embedded case study includes more than one unit of analysis and focuses on a sub-unit or sub-units and their outcomes within the single case study. Our own case study is a single-embedded case study design. It is a single case study in the sense that we have chosen to use only one company for our study.

This thesis is based on a case study of the joint venture formed between SKF and a subsidiary of Chinese Railway in China. For our research, we were interested in conducting research on the activities of a multinational enterprise in China. We chose China as the location of investment for the analysis. With its transition economy and the large amount of inward investment made by foreign multinationals, we believe that China provides a good research environment for investigating the management process of international joint ventures made by foreign multinationals.

The reasons for choosing SKF as our targeted studying company are that, firstly, before writing this thesis, we undertook a research project in SKF. This experience is a part of our pre-research that enabled us to get a whole picture about this company. Some of information discovered during this project could also be used in our current study. Secondly, as a multinational enterprise, SKF entered China in 1994. So far, SKF runs six joint ventures in China, and most of them are said to be a success in China. The sophisticated experience and mature mechanism of managing joint ventures could offer us a comprehensive understanding of the management an economic cooperative organization in the form of a joint venture.

Therefore we tried to contact SKF. After several meeting and a discussion with Mr. Kent Viitanen, HR Director at the Industrial Division of SKF, we decided to research a Sino-Swedish Joint Venture with the Chinese Railway. That is because one of us is from China. This cultural and language advantage could offer us a sensitive and instinctive insight about particular phenomenon of joint venture in China. After careful discussion about the activities of SKF in China, we chose *Beijing Nankou SKF Railway Bearings Co., Ltd* as our target case, since it has been regarded as the most successful join venture of SKF in China. In order to see and get a picture in the real life, one of us went to China where we collected most of our primary data. Thus, the firm was visited and interviews were conducted with GM and middle managers at the Nankou SKF and GM of SKF (China) Investment Co., Ltd. in Shanghai.

2.3. Data Collection

According to Yin (1984), three principles are important to any data collection effort when doing a case study. These include a) multiple sources of evidence, that is, evidence from two or more sources, but focusing on the same set of facts or findings; b) a case study data base, that is, a formal assembly of evidence distinct from the final case study report; and c) a chain of evidence, meaning having a link between the questions asked, the data collected, and the conclusions drawn. In order to increase the quality of our thesis, we have tried to fulfill all three principles³.

In order to accomplish the case study in this thesis, both secondary and primary data have been collected and used.

Secondary Data

In order to collect relevant data from literature, we spent a considerable time in the library. In addition, we have made a reasonable investigation through the scientific journals. During investigating and evaluating the literature for our thesis, information regarding the literature was also received from our mentor. After creating a primary proposal for the thesis, we applied to our mentor to receive a list of relevance to this primary proposal. Based on information we got from our mentor, we continued our investigation for relevant literature, so as to support our thesis with a theoretical framework. Throughout our research, we have gradually collected information on our chosen topic. The secondary data studied includes information from books, articles, journals, and newspapers. (To give a picture of our studies, we made a list of the literature utilized in this thesis in the theoretical framework.) The studies gave us a

³ From Yin (1984: Ch.4)

comprehensive picture of the problem area and made it possible to begin with the primary data collection.

Primary Data

Primary data was partly collected by qualitative interviews. A qualitative interview is performed as a discussion face to face with the informant. Our interviews were not based on a standardized questionnaire.

Interviews

Our main technique for collecting primary data has been undertaken through interviews. Merriam (1998) categorizes three types of interviews: highly structured, semi-structured and unstructured interviews. Highly structured interviews could be done by questionnaires, while unstructured interviews are more like free conversations. The semi-structured interviews are somewhere in between above mentioned two types.

In the beginning of our research, the initial interviews at headquarter of SKF and Nankou SKF were conducted with unstructured interviews in order to get a general understanding and picture of JVs of SKF in China and the situation of Nankou SKF in China. After designing the problem areas, the semi-structured interviews were conducted.

To get a general understanding of Nankou SKF, seven interviews were conducted at the Beijing Nankou SKF Railway Bearings Co., Ltd in Beijing, and one interview was conducted at SKF (China) Investment Co., Ltd. in Shanghai. After these initial interviews, open-ended and follow-up questions were conducted via face-to-face, telephone and e-mail respectively. (In the appendix, we present some questions that were asked in the semi-structured interviews.)

Almost all interviews were recorded in order to avoid missing vital information. After re-listening to the tapes, we grasped more information and interpreted the implications of those interviews. Furthermore, this also led us to produce further follow-up questions for later occasions in order to get the more specific data we needed.

2.4. Reliability and Validity

When performing research, it is very important to test the quality of the work. According Yin (1984), this can be done through four tests: construct validity, internal validity, external validity, and reliability⁴.

One way for researchers to increase *construct validity* is to use multiple sources of evidence. We have used several sources of information (external, internal, primary and secondary). To meet the test of construct validity, we have also tried to maintain a chain of evidence. After an initial case study at SKF Nankou in China, we extended this initial research with extensive survey which whit reference to definition of Yin, explicit links between the questions asked, the data collected, and the conclusions drawn. We have also let our respective informants check our material if they wished to add or change any of the information.

Internal validity concerns how well the researchers reflect reality; in our case how well we reflect events in Nankou SKF. One way for the researcher to increase the internal validity is to use relevant sources. In our case, to reflect the right climate within the case, we have applied internal materials from the firm and interviews conducted with people from Nankou SKF. In terms of internal material, we tried to collect this from SKF group and LORIC (Chinese partner) as well as Nankou SKF. These internal materials have been utilized in order to get real picture of events inside of the case company. Interviews also helped us to collect information. In addition, as one of us visited Nankou SKF in China, we have been able to feel the climate of the case.

External validity is determined by whether findings of a study are beyond the existing study. In our case study, external validity of our thesis would mean whether our research results are applicable for use in other enterprises. Our intention with this case and with our thesis can be generalized to other JV forms or some activities specifically in China. In addition, as our case firm has some local characteristics, it may be not applicable for every local condition, for instance, applying in western setting. However, we believe that our findings are valid to most corporations with plans to enter the Chinese market, and also may be applicable for some joint venture in LICs, since we utilized a global perspective as well as a local perspective.

Reliability has the objective of being sure that if a later investigator followed the study, he/she would arrive at the same findings and conclusions. We believe that it is rather difficult for a later investigator to arrive at the same findings and conclusions even when the earlier procedures are well-documented since

⁴ From Yin (1984: Ch. 2)

collecting data through interviews very much depends on the interviewer's skills in formulating questions, listening, and observing events. In addition, his/her personal experience and background certainly play a key role. However, as the goal of reliability is to minimize the errors and biases in the study as much as possible, we have followed procedures that are easy to pursue and to further increase the reliability of our research we have made our research material available in an archive. This material includes notes from interviews and observations, documentations including articles and books and, finally, our data for analysis. We also believe that that even though our theories have been applied to a single case, they are applicable for other research as well. There should, therefore, be no need to raise questions as to the reliability of our thesis.

2.5. Delimitations

To achieve the entire purpose of the thesis, it is necessary to include some delimitation. The depth and desired analysis is often limited by, for instance, time and cost or opportunity constraints.

Our purpose includes improving the performance of managing of the Sino-Swedish JV. We will scrutinize aspects that we believe will increase the performance of the firm, but we will not measure the performance itself, which may be seen important element to get a fulfilled conclusion.

Some of the theories used have been created in the west. Therefore, they may lack of local perspectives. However, in the theoretical framework we tend to present a review discussion among theories and try to support these with some literature focused specifically on the Chinese context.

In terms of the collecting empirical evidence, we have faced some obstacles to obtaining the expected evidence from our case firm. Time limitations were big problems for us since our case is located in a district far from us and we had trip to our case firm in China to collect evidence. We also made efforts to collect information by telephone, e-mail interviews, and face-to-face interviews as well. However, we believe that we have reached meaningful conclusions in our thesis.

Part III: Theoretical Framework

Introduction and Selection of Relevant Studies

This Chapter aims to develop a theoretical framework to be utilized in analyzing the case. The framework is developed on the basis of a review of relevant literature from two theoretical areas: international joint ventures (IJV) and human resource issues within IJVs. Basically, the theoretical framework is concentrated on two parts, which support us with a theoretical basis for our two problem areas. The first one is the IJV control, which parents have over the venture. The second part of the theoretical framework relates to HRM practices of IJVs, which lead to managing human resources within IJVs.

When developing a theoretical framework it is important to make a selection from relevant literature that suits the purpose of the study. When investigating the literature, three aspects were borne in mind during the process of literature selection: (1) since the study defines JV as a form by two parents, the control issue within the venture is concentrated, presenting sort of effects of control for the performance within the venture (from List 1.1); (2) since the study concentrates on joint venture management problems related to human issue, some existing studies that focus on joint venture management of cooperative relationships were included (again from List 1.1 and List 1.2); (3) since the primary focus of the study is to investigate human resource issue, mainly in Sino-Foreign IJVs, certain human resource management practices were included (from List 1.2). The first and second groups of studies are discussed under the parent perspective as well as under the individual JV management perspective. The third group of studies under the human resource challenge belongs to the individual JV management perspective. It should be pointed out that mostly the relevant studies are, in principle, related to Sino-Foreign Joint Ventures.

Table 1: Overview of the literature

List 1.1: International Joint Venture

IJV Management and Performance: including characteristics of the structure of JVs and management aspects of the venture, and some certain effects upon IJV performance (Killing, 1982; 1983; Ding, 1996; Halbauer, 1996; Makino & Beamish, 1998)

IJV Control and Performance: presenting control characteristics from parents to the venture and discussing performance and control correlation in ICs and LIC (Killing, 1983; Harrigan, 1986; Geringer & Hebert, 1989; Halbauer, 1996; Beamish, 1985; 1993; Shenkar, 1990; Ding, 1997; Calantone & Zhao, 2001)

IJV Parent Characteristics: including characteristics of parents which could have an effect on the operation and management of the venture, and discussing conflicts between parents and between parents and the venture (Killing, 1983; Shenkar & Zeira, 1987; 1990; Parkhe, 1991; Parker & Zeira, 1996; Park & Ungson, 1997)

IJV Characteristics and IJV Management Problems in Developing Countries and China: concentrating on IJVs in LICs and more specifically in the PRC, covering failures and success and failures of JVs in this type of country (Beamish, 1985; 1993; Shenkar, 1990; Halbauer, 1996)

List 1.2: Human Resource Issue in IJVs

Human Resource Challenges in IJVs: covering personnel problems in IJVs, conflicts between IJV staff coming from two parents, different HR practices of the parents (Shenkar & Zeira, 1987; Beamish & Lane, 1990; Cascio & Serapio, 1991; Cyr, 1995)

Human Resources and Performance: studying the relationship between HRM practices and performance (Prahalad, 1983; Pfeffer, 1994; Wright, McMahan, & McWilliams, 1994; Youndt, Snell, Dean, and Lepak, 1996; Delaney & Huselid 1996; Cyr, 1996)

Human Resource Issue of IJVs in the PRC: covering personnel problems and HRM success practices of Sino-foreign JVs, HR policies of the PRC (Holton, 1990; Tsang, 1994; Shenkar, 1990; Halbauer, 1996)

Parent Characteristics and Human Resources in IJVs: including parents' characteristics that have implications for HRM in IJVs (Shenkar & Zeira, 1990)

3.1. A Review of the Joint Venture Control

In this part of the theoretical framework, we provide a basis from the relevant literature for the first problem area of our analysis case related to control issue of IJVs. Firstly, a descriptive discussion for the control issue in the venture is represented. Secondly, we try to offer a review of the point, 'who is in control?' Finally, there is an effective review of the relationship between control and performance.

3.1.1. The Parent Firm's Need for Control

Control can be defined as the process through which a parent company's interests are protected. According to Geringer and Hebert (1988), control refers to the process whereby one party influences, to different degrees, the behavior and output of another party through the use of power, authority, and a wide range of bureaucratic, cultural, and informal mechanisms. Through control, a partner influences the joint venture to behave in ways that lead to the attainment of the organization's objectives (Calantone & Zhao, 2001).

Parental control is defined as a tie that binds the venture to each partner. According to Harrigan (1986), in his eminent study presenting whole framework of the JV formation, the joint venture is governed by terms of a bargaining agreement between partners that specifies the (1) nature of information sharing; (2) personnel contacts; (3) representation by owners in the venture's performance; (4) reporting mechanisms; and (5) other details of the management system created to support owner's strategy objectives. Bargaining agreement is the governor of the relationships between owners and the venture. The most essential idea of the bargaining agreement is the understandings developed between owners regarding the type of relationships which are to be maintained between them and their venture; the degree of autonomy the venture's managers will be granted; and the level of support to the venture (Halbauer, 1996). In theory, the bargaining agreement that forms the venture will contain the details of the management system, which will bind the venture to each respective owner (Harrigan, 1986). Similarly, Killing (1983) also points out that there are a variety of legal documents that invariably accompany the creation of a joint venture, and these are closely connected to the issue of control.

Harrigan explains that owners feel a particular urgent need to assert their control over the operations of their venture when they are keen to secure internal benefits for their ongoing units, competitive benefits by way of the venture, so as to strengthen their current strategic positions in response to blurring industry boundaries and globalization, and strategic benefits. There are

several ways of controlling a venture so as to support the strategic objectives of owners. As several scholars have indicated (e.g. Killing, 1983; Harrigan, 1986), there are more or less similar types of control mechanisms, such as ownership shares, representation on the JV's board, staffing, and personnel rotation. In addition, there are designated management instruments including performance measures, reporting systems, review procedures, reward systems, and so forth (Halbauer, 1996).

Staffing among the various types of control mechanisms is of particular interest in this context. As Killing (1983) indicated, there are several immediate advantages to a parent interested in controlling a venture in having its personnel in the venture. Communication between the venture and the parent company is likely to be improved, simply because employees of the two firms know each other. Also such an employee is likely to act in ways in which his parent would find acceptable (Killing, 1983). Killing, in order to enhance his argument, uses various types of techniques to ensure the continuing loyalty of joint venture personnel. Such techniques include: retaining the JV general manager on the parent's payroll; paying the GM a bonus tied to one parent's results; making the GM attend the parent's worldwide management or technical meetings; and setting up contracts relating to the promotion and career prospects of the GM upon his return to the parent company.

3.1.2. Who is in Control?

Applying effective control over a joint venture is often difficult for both parents. Each faces a conflict between the desire and the ability to exert control over joint ventures (Mjoen & Tallman 1997). From the bargaining agreement perspective, most partners want a high level of control, which is consistent with the bargaining power perspective (Harrigan 1986; Calantone & Zhao 2001; Makhija & Ganesh 1997). Makhija and Ganesh (1997), in a study related to relationship between control and partner learning in JVs, argue that variances in composition and distribution of power within an organization should influence the design and use of control mechanisms. Thus, a partner with greater bargaining power can affect the design and use of control mechanisms more than other with less power. In other words, the level of control by one party reflects its importance in the joint venture.

The parent who wishes to exercise a tight control of the JV will endeavor to make it run as a dominant parent JV (Harrigan, 1986). That means that other parent will exert less control and be content to play a passive role in the management of the JV. If both parents want to exert tight control of the JV at the same time, they are obliged to reach an agreement concerning the areas either will control- otherwise severe tensions will arise between them

(Halbauer, 1996). Also, Killing (1983) discusses that in a dominant parent JV one of the partners plays an active role, while in shared management ventures, both partners play an active managerial role, and all significant decisions are shared. However, Killing (1983) suggests that the essential point is that the parent that has the managerial skills and knowledge with which the venture is going to be successful should assume management control of the JV. Killing (1983) made such statements from the perspective of developed countries. On the other hand, Beamish (1993) maintains that decision making in JVs in less developed countries should be shared with local partner, or split between the partners.

A party whose need for the other's special resources is high has reduced bargaining power and cannot gain complete control over the joint venture (Calantone & Zhao, 2001). Almost by definition, each partner in a joint venture has resources that are crucial to the other. Accordingly, Calantone & Zhao (2001), in their study of Sino-foreign JVs, assert that the resources are so embedded in their organizations that the market fails to transfer intermediate goods adequately and neither firm can afford to acquire all of the other. Therefore, foreign partners that want to take advantage of local resources (both human and natural) are likely to give part of the control to the local firm because of its local knowledge.

The issue of control is complicated in China because of the nation's special economic and political conditions (Beamish 1993; Ding 1997). As JVs are formed by two different firms, often with diverse objectives, the partners are usually independent but expect to make gains by forming the joint venture. Each needs the other to enhance its own interests, and this need can be a source of opportunism (Park and Ungson 1997; Parkhe 1993). China's planned economy is characterized by a weak capital market structure, poorly specified property rights, and institutional instability. Thus, in Sino-foreign joint ventures, expertise in research and development (R&D), marketing, and finance is likely to be located in the foreign partner (Calantone & Zhao, 2001). Normally, it is expected that foreign partners that want to improve competitiveness or market power need to control these major functional areas. At the same time, local knowledge is likely to reside with Chinese partners as an unstable political and economic environment is perceived to influence the Chinese market; so many foreign investors rely on their Chinese partners to help reduce risk (Osland, 1994).

3.1.3. Control and Performance Correlation from LICs Perspective

The relationship between joint venture control and performance is a prominent theme in the literature (Killing 1983; Beamish 1985; 1993; Shenkar 1990;

Ding, 1997; Calantone and Zhao 2001). Studies have brought in mixed results. Killing (1983) reaches a positive result of relationship between control and performance by comparing dominant-partner and shared-partner control in joint ventures from a perspective of developed country. Similarly, Ding (1997) confirms this positive relationship in his work examining the linkages between control, conflict, and performance of U.S.-Chinese JVs. He concludes that dominant managerial control exercised by the foreign partners has a positive impact on joint venture performance. According to Ding (1997), the rationale is that Chinese partners are likely to have less expertise at improving efficiency in joint ventures compared with foreign partners. Thus, performance is enhanced when foreign partners apply their advanced managerial skills and technology.

Beamish (1985) reported a strong correlation between unsatisfactory performance and foreign dominant control in his sample from less developed countries, using the measure of control used by Killing in developed countries. In market-economy developing countries, a correlation between shared/split control and joint venture success was observed by Beamish (1993) and Shenkar (1990). They found it effective to divide up control along functional lines. Based on his sample from the PRC, Beamish (1993) observed that shared/split joint ventures had greater success. Beamish (1993) and Boisot & Child (1990)⁵ indicate that shared/split control is the most common type in the PRC. According to Beamish (1993), having one partner making nearly all the decisions- as would be the situation with a wholly owned subsidiary or a dominant control joint venture-increases the probability of poor performance in the PRC. The local economy, politics, and culture in the PRC are so far removed from the experience of most Western firms and managers as to make dominant foreign control extremely risky. Similarly, the lack of technology and managerial skills by Chinese makes dominant control by them equally risky (Beamish, 1993).

Shenkar and Zeira (1987) note that the failure rate is generally high in LICs, due to the structural complexity, which makes IJVs difficult to manage, regardless of contrasts between their respective parent milieus, meaning the diversity between parents. Thus, shared management enables the venture to achieve a performance appreciated by both parents having different perspectives steaming from their dissimilarity. Shared control seems more feasible for joint ventures in a developing country, specifically the PRC. Shenkar (1990) argues that the right solution for the division of responsibilities between parents is to distribute parent responsibilities along functional lines, with the foreign parent frequently controlling technological and financial functions while the host parent controlling domestic marketing and human resource management. As a result, shared or split control is the principal means

⁵ Ref. from Beamish (1993)

by which success may be achieved, resulting in a fulfilled performance for the joint venture in LICs.

3.2. Literatures on Managing Human Resource in IJVs

In this part of the theoretical framework, we present human resource issues in international joint ventures as a basis for the second problem area of our analysis case. We firstly present the human resource challenges in IJVs. Secondly, we present the parents' objectives in establishing the venture and culture as points that affect the performance of employees. Thirdly, there is a review of discussion related to human resource and performance. Finally, there are some human resource practices from human resource management in IJVs. These major practices aim to capture the elusive people issues, which influence the performance of international joint ventures.

3.2.1. Human Resource Challenge within IJVs

In complex organizations, such as IJVs, a process role for management involves the integration of people and values at multiple levels in the organization (Cyr, 1995). Shenkar and Zeira (1990), in a very relevant study of HRM in IJVs that also presents directions for research, confess that personnel problems tend to mushroom in IJVs when parents try to impose their own personnel priorities without being aware of the personnel policies of the other parent, when they do not make a sincere effort to reveal the advantages and shortcomings of their own policies, when they do not reach an agreement as to the desired policies in the ventures, or when such an agreement is not specified in the documents of incorporation.

In a Sino-Foreign JVs study related HR problems, Tsang (1994) concludes that managing the Chinese workforce alone, as in the case of wholly owned subsidiary, is difficult enough and managing the workforce together with a Chinese partner is even more challenging. As to the management problem that emerged at the staff level, it seems that managing human resources is the greatest challenge for IJV executives in China (Halbauer, 1996). In addition, Shenkar (1990) describes the problems associated with managing human resource in the PRC in the following terms: many ventures are staffed with surplus workers; the Chinese parent is reluctant to provide skilled staff to the venture; and because of the PRC political ideology, personnel matters such as selection and remuneration occasionally give rise to fundamental difficulties with regard to discipline and attendance.

3.2.2. Parents' Characteristics that affect the performance of human resource

The IJV is a multipartite structure, owned (and often managed) by at least two-parent firms -typically one foreign and one host (Shenkar & Zeira, 1987). Each of these variables can have a major impact on the human resources and managerial problems in IJVs, since IJVs with their multiple structure bring together individuals who differ in national origin, cultural values, and social norms. There also may be political, economic, and legal system differences (Shenkar & Zeira, 1987). Interactive and specific parents' firm characteristics (such as the objectives of parents, ownership type, culture, and personnel policies) have impact on personnel and managerial behavior patterns in IJVs (Shenkar & Zeira, 1990). In her study of four cases' examining HR challenges within IJVs, Cyr (1995) also indicates the importance of diversity between parents for human resources management in IJVs. Variables to consider in the IJVs that affect human resources include differences in cultural and management styles and between parents' objectives (Cyr, 1995). In the following section, the parents' objectives and parents' culture are presented so as to contribute to our ongoing description.

Parents' Objectives

Applying the definition by Shenkar & Zeira (1987), the objective of the parents refers to the manifest and latent goals of each parent in establishing the IJV, such as to spread the risks of a new venture, to acquire raw materials, to gain access to new information, to develop new technology, to enter a new business domain, to reach or expand a market, to tap human resources, to avoid economic or political instability, to coordinate with competitors, to cross ethnic and cultural frontiers, or to adapt to new political situations in less developed countries. On the other hand, Shenkar (1990) discusses partner objectives, specifically in case of joint venture partners in China, and presents a list of foreign and Chinese parent objectives in establishing IJVs. This list is not also unique to PRC, but also quite typical of IJV's transactions, particularly those bringing together parents from developed and developing countries (Shenkar, 1990). According to Shenkar (1990), the foreign parent aims to enter the PRC market, generate profit, lower labor costs, gain access to natural resources, utilize outdated technology, exploit tax and investment incentives, overcome trade barriers in PRC, and overcome nationalistic feelings, while local parent aims to gain technology transfer, develop independent R&D, generate foreign exchange, enhance reputation, mobilize financial resources, expand employment and manpower development, learn management skills, and make use of incentives.

We have found that the effects of distinct parents' objectives over personnel issues in IJVs were examined very well in the study conducted by Zeira and Shenkar (1990). Zeira and Shenkar (1990), in their case study, claim that managers participating in their study revealed that as long as the goals of parents are compatible the JV's staff could function quite effectively. However, when the different goals of parent firms are perceived by their representatives in conflict, the processes of the formulating and implementing personnel policies in the JVs become complicated (Zeira & Shenkar, 1990). They also add that the situation becomes much more severe when the staff in the ventures feels that the real goal of one of the parents is in fact to disarm the other parent of its competitive advantage by gaining confidential information of its know-how, activities, policies or strategic business. Consequently, different employee groups blame each other of being disloyal to the venture and feelings that the venture existence is in jeopardy become widespread among the IJVs personnel (Zeira & Shenkar, 1990).

Culture of Parents

Culture has long been recognized as a significant determinant of people's beliefs, values, attitudes, and patterns of behavior within the fields of development psychology, anthropology, and sociology (Adler & Doktor and Redding, 1986). In addition, increased evidence has been produced regarding the influence of culture at a corporate level; such as on management practices, decision making process need, and learning capabilities, and so on. Cultural distance at the corporate level has often been investigated in terms of core business, management practices, decision-making process, between alliance partners (Killing, 1983; Makino & Beamish, 1998; Makhija & Ganesh, 1997). The cultural dissimilarity between nations has been shown to imply differences in managerial practices, values, mind-sets, and norms (Luo, Shenkar, and Nyaw, 2001) because differences in organizational culture are often interwoven with the fabric of the partners' societal cultures (Parkhe, 1991).

The cross-cultural interactions found in global alliances bring together people who may have different patterns of behaving and believing, and different cognitive blueprints for interpreting the world. Parkhe (1991), in his study related to Japanese-UK strategic alliances, claims that excellent examples of the deep impact of culture on global venture management can be found in the partners' approaches to problem solving and conflict resolution. In some cultures, problems are to be actively solved; managers must take deliberate actions to influence their environment and affect the course of the future (Parkhe, 1991). In contrast, in other cultures, life is seen as a series of preordained situations that are to be fatalistically accepted (Moran & Harris, 1982). More specifically, Killing (1983) discusses the cultural distance of

partners in terms of managers in joint ventures. According Killing (1983), managers of a different nationality may have different attitudes to such basic things as the desirability of material wealth, the importance of on-the-job performance, or the desirability of change.

Halbauer (1996) studied the influence of culture in managing Chinese staff. Halbauer has realized the impact of Chinese traditional culture and Confucianism over the staff organizational behavior, managerial skills, management practices, and personnel policies IJVs in the PRC. She confesses the effect of diverse cultures on management of joint ventures, since staff in JVs has differently management practices not only because of the culture of their country, but also because of their corporate background. These notions have a bearing on joint venture collaboration in the PRC, since the companies concerned are joined from different national, as well as organizational, cultures (Halbauer, 1996).

3.2.2. HRM Practices and Performance

Over the years, researchers have amassed a fair amount of empirical evidence that certain human resource practices directly effect firm evidence (e.g. Prahalad, 1983; Pfeffer, 1994; Wright, McMahan, & McWilliams, 1994; Youndt, Snell, Dean, and Lepak, 1996; Huselid, 1995; Delaney & Huselid 1996; Cyr, 1996). It has become a widely held premise that people provide organizations with an important source of sustainable competitive advantage (Prahalad, 1983; Pfeffer, 1994; Wright, McMahan, & McWilliams, 1994) and that the effective management of human capital, not physical capital, may be the ultimate determinant of organizational performance (Youndt et al., 1996).

Youndt and his colleagues (1996), in their study resulting from a survey of 97 plants primarily related to HRM practices such as staffing, training, compensation, and performance appraisal, suggest the certain link between human resource practices and performance. According to them, HR practices focused on enhancing employee commitment are related to higher performance. They concluded that their results add clarity to the specific aspects of operational performance affected by HR practices. Similarly, Huselid (1995), in his study of high performance work, found that investments in HR activities such as selective staffing techniques, incentive compensation, and employee participation, result in lower turnover, greater productivity, and increased organizational performance through their impact on employee skill development and motivation.

In particular, employee participation and empowerment and job redesign, including team based production systems, extensive employee training, and performance contingent incentive compensation, are widely believed to

improve the performance of organizations (Pfeffer, 1994). Delaney & Huselid (1996), in a study related to 590 for-profit and nonprofit firms, found positive associations between HRM practices, such as training and staffing selectivity, and perceptual firm performance measures. They discuss that organizations can adopt various HRM practices to enhance employee skills through focusing on improving the quality of the individuals hired, and providing comprehensive training and development activities after selection, which resulting in organizational performance. If we apply for the conclusion of the empirical study conducted by Delaney and Huselid (1996), it suggests that progressive HRM practices, including selectivity in staffing, training, and incentive compensation, are positively related to perceptual measures of organizational performance.

3.2.3. Human Resource Management Practices within IJVs

Shenkar & Zeira (1987) in their study related to personnel problem within IJVs such as staffing, promotion, compensation, and communication, found a closer examination of the HR issues very necessary because of the growing popularity, the substantial failure rate, and the managerial complexity of IJVs. Cyr (1995), in her study of HR challenge within IJVs, suggests the importance of HRM practices for employees' involvement, which result in high performance of the IJVs. To fulfill designed strategic objectives for the joint venture, managers and other staff are to be actively involved in process (Cyr, 1995).

On the other hand, according to Cyr (1995); human resources approach to development and coordination is required not only within venture, but also across organizational boundaries between the venture and the parent firms as well. HR practices help to facilitate the contribution of both parents to create management and technical synergy through staffing the JV from parents, extensive communication networks, and rewards for technological accomplishments.

In the following, we investigate HRM practices respectively:

Recruiting and Staffing

In order to meet strategic demands in the joint ventures, exemplary staff who posses both personal and technical skills are hired into all levels of the venture. In some cases, personal skills are more important than technical abilities. Shenkar and Zeira (1987) found that there is so much focus on high-quality staffing in joint ventures because of the venture's strategic objectives.

According to Shenkar and Zeira (1987), if firms are to realize strategic objectives, then sufficient numbers of staff are required to complete tasks efficiently.

Transfers of staff between the JV and parent firms can provide a mechanism for sharing information, for learning for each other's abilities and expertise, and for the creation of synergies related to strategic operations (Cyr, 1995). On the other hand, because of the venture's identity, large numbers of transfers is seen problematic. In terms of Sino-foreign JVs, the Chinese parent of a JV is usually a state enterprise that is a natural source of labour. The danger here is that large numbers of parent employees in the joint venture are able to bring parent influence to the venture, and subsequently, the development of an identity unique to the venture becomes problematic (Tsang, 1994).

Cyr (1995) presents special requirements for joint venture managers, as staff at the top within the JV must have special skills beyond those of traditional managers, possessing cultural and political expertise as well as knowledge of management techniques. JV managers must be visionaries and politicians and need to have a good knowledge of the business, and of the strategy and the cultures of the parent firm (Cyr, 1995).

Training and development

Training provides staff with business skills in order to participate in the work environment. In her study of four joint ventures, Cyr (1995) found that the extensive amount of training provided to employees seems to be worthwhile, and both associates and managers feel that they are sufficiently qualified to perform their jobs. She states that all managers in her study stressed the importance of training to enhance teamwork and production quality.

Training focuses not only on technical skills, but also on personal skills. Cyr (1995) suggests that training should aim to team building and international skills, language skills, cross-cultural and international management skills for the joint venture staff.

The IJV's performance is greatly enhanced by managerial level members rather than operational level employees (Bailey & Shenkar, 1993). Therefore, a great deal of attention should be given to the training of the manager in order that IJV managers have management style flexibility, team building skills and communication skills (Shenkar & Zeira, 1987; Bailey & Shenkar, 1993). On the other hand, Holton (1990) found that in Sino-foreign JVs, Chinese managers are not willing to take the responsibility of making initiative actions by themselves. Therefore, the Chinese manager should be prepared to accept

responsibility, to exercise imagination and initiative, and to communicate readily across functional lines (Holton, 1990).

Cultural training is vital for IJV staff. Policy orientations within IJVs should be enhanced to highlight issues for improved training on cross cultural skills (Beamish & Lane, 1990). Cascio and Serapio (1991) suggest that training related to the corporate culture can be offered in orientation sessions, which should include an overview of the history, traditions, and corporate values of the partners, and then should include a description of the new venture, its organization, and its management structure.

Tsang (1994) found that training is very important for Sino-foreign JVs, since there is really a shortage of managers and professionals and the issue is related to heavy training costs and danger of losing well-trained staff in China. Because there may be too much staff required and costs can be very substantial in Sino-foreign JVs, training needs to be integrated into the joint venture's negotiations and agreements (Tsang, 1994). The ability of keeping key managerial staff is a continual headache for many joint ventures. Sometimes, joint ventures are used as training ground by Chinese Government, and after finishing the training offered by foreign parent, the worker could be transferred to the Chinese parent from the joint venture⁶. Thus, trainee should be negotiated before the training start or a bond with should be signed which imposing a financial penalty if he fails to serve the venture for a certain time after finishing training program (Tsang, 1994).

Remuneration and Reward System

Rewards are a powerful incentive for better work performance, and can be used to reinforce the strategic process in the venture. The purpose of the reward can be defined as to attract, motivate, and retain employees (Cyr, 1995). Cascio and Serapio (1991) argue that compensation systems emphasize the individuality and distinctive competencies of each person, with pay allocated for knowledge and performance. From that perspective, it could be claimed that reward incentives for employees that are linked to learning and innovation are most likely to result in the creation of new solutions, or changes to products or process that ultimately benefit the firm.

At the executive level, compensation that is tied to JV success provides incentives for managers to concentrate on the viability of the venture (Cascio and Serapio, 1991). According to Cyr (1995), without incentives that are tied to venture performance, executives or other managers (who may experience divided loyalty to the venture and parent anyway) may be tempted to spend

⁶ This event was experienced in an American-Chinese JV (Ref. from Tsang, 1994)

more time making career connection with the parent firm rather than stimulating the success of the joint venture.

In Chinese enterprises there exists a bonus system which provides monetary incentives for superior job performance. Owing to the ideological legacy of egalitarianism, bonuses have been distributed rather evenly to all workers within a work group or production floor which makes bonuses less effective as a motivational tool (Holton, 1990). This egalitarian mentality tends to be brought into the joint venture by Chinese managers (Tsang, 1994). Another indication of the remuneration system of Chinese enterprises is that seniority is a key factor in determining pay and promotion, since supervisors are normally more advanced than their subordinates in terms of both age and experience are. This is also consistent with the traditional Chinese respect for 'elders'. However, the respect for seniority clashes head-on with the Western idea of meritocracy, in which the most capable should rise to the top regardless of age (Tsang, 1994). That may, therefore, cause resentment in JVs if young Chinese employers in their 20s and 30s are promoted to positions above their former supervisors who are older and more experienced (Holton, 1990; Tsang, 1994).

In IJVs, more than one compensation system sometimes may operate simultaneously as executives or other employees transferred to the venture may remain on the payroll of the parent firm (Cyr, 1995). Cascio and Serapio (1991) argue that multiple compensation systems may have a negative impact on staff. Differences in compensation systems, especially for employees doing the same job, often lead to feelings of inequity among those receiving lower compensation and benefits (Cascio and Serapio, 1991). Therefore, low morale and motivation is suffered among group members. On the other hand, Cyr (1995) did not find the multiple compensation system problematic. JV employees know different remuneration systems exist, but feel that as long as an individual remained under the parent umbrella, he or she is considered in a different category (Cyr, 1995). Contrary to Cyr, Tsang (1994) argues that the great difference in remuneration among staff has been the cause of resentment in Chinese joint ventures.

In addition to the monetary reward systems, non-monetary recognition systems are established to recognize excellence in employee performance. Recognition demonstrates to employees that their efforts are appreciated, and consequently encourages continued excellence (Cyr, 1995). To the extent that non-monetary recognition is aligned with the strategic orientation of the venture, employees have a clear idea of what are considered important contributions to the goals of the company.

Part IV: Empirical Evidence

4.1. The Case Description-Beijing Nankou SKF Railway Bearings Co. Ltd

4.1.1. The General Data

* Location	Nankou, Changping Country, Beijing (Northwest of Beijing)
* Date of Sign	April 15, 1996
* PRC partner	China National Railway Locomotive & Rolling Stock Industry Corporation (LORIC).
* Foreign partner	Aktiebolaget SKF (the Group)
* Product, capacity	Bearings for the freight cars, rolling stock and related productions.
* Initial Investment	150 Million SEK
* Foreign equity	51%
* PRC equity	49%
* Foreign Contribution	Capital, know-how, managerial experience, and technical and managerial training
* PRC Contribution	Land, buildings, machinery, labor, raw material, electricity, marketing channel, knowledge about China railways industry market.
* Duration	
* Management	7-member Board of Directors with Chairman from SKF
* Labor	Currently 568 employees (18% are engineers and technique workers)
* Marketing	Mainly for sale in China initially, but ultimately for the export.
*Tax and incentives	According to the Joint Venture Contract, but more importantly according to PRC law

Table 2: The general data of Nankou SKF JV
(Our own source)

Beijing Nankou SKF Railway Bearings Co. Ltd is a Sino-Sweden joint venture. It was established on April 15, 1996, with a 49-51 equity shared by a subsidiary of China Railways and Aktiebolaget SKF (the Group).

Beijing Nankou SKF Railway Bearings Co., Ltd is located in Nankou, northwest of Beijing. SKF holds the majority in the joint venture and has also the management responsibility. The new company took over the existing roller bearing production from a subsidiary of China Railways in Nankou. SKF launched a completely new rolling bearing - the toroidal roller bearing CARB®. This Sino-Swedish company is China's leading supplier of bearings

and related productions to the Chinese railway industry and serves around 30 percent of the market.

Beijing Nankou SKF Railway Bearings have about 600 employees and an initial turnover of about SEK 150 million. SKF's investment in this project was about SEK 100 million in the initial stage, which represents 51 percent of the total investment.

4.1.2. Background and motives of China National LORIC

Primarily, the Beijing Nankou Locomotive & Rolling Stock Machinery Works was a factory under the control of a subsidiary (China National Railway Locomotive & Rolling Stock Industry Corporation) of Ministry of China Railways. This factory mainly produced the components for other manufacturers of locomotive and rolling stocks in China. China National Railway Locomotive & Rolling Stock Industry Corporation (here after called LORIC) under the Leadership of the ministry of Railway of China is a professional corporation that has the power to engage import and export trade approved by the State. Setting up its headquarters in Beijing, LORIC, with total staff and workers around 278000, possesses 34 factories, 4 research institutes, 2 representative offices, 2 overseas offices, and 3 training departments. LORIC is mainly engaged in designing, manufacturing, marketing and overhauling locomotives & rolling stock and the related components, as well as part of electromechanical equipment and their components.

Under the planned economy, LORIC is a State-owned organization with numerous enterprises underneath its “umbrella,” the China Ministry of Railways. In 1986, it was reorganized into China National Railway Locomotive & Rolling Stock Industry Corporation, with 35 subsidiary Works and 4 research institutes. It had all the maladies that all state-owned enterprises have, such as complexity of organization (Figure 1), bureaucracy, low productivity, low efficiency, low quality, etc., but with a prospect of tremendous future demand and existing domestic and overseas market channels. While meeting the domestic railway demands and competition, LORIC hoped to provide customers with high quality products and technical services, and then penetrate the overseas market. However, the problems stem from lack of capital, lack of advanced technology, lack of managerial experience, and the typically State-owned enterprise symptoms hobbled them. Some of their subsidiaries fell into serious financial crises. Beijing Nankou Locomotive & Rolling Stock Machinery Works was one of those subsidiaries. In order to develop, LORIC was looking for foreign investors who could cooperate with them and attracting foreign capital, advanced technology, and managerial skills.

组织机构 Organization Chart



Figure 2: Organization Chart of China National LORIC (source: www.loric.com.cn)

4.1.3. Background and motives of SKF

SKF was founded in 1907, and the world leader in rolling bearings and seals. After having expanded for more than 90 years, the company has become an international group operating in around 150 countries with 38,500 employees and 80 production sites in 22 countries. Turnover of the group reached MSEK 39 848 in 2000. Bearing, seals and special steels are the core business of the group.

The manufacture of bearings is SKF's largest product area and accounted for 87% of the total turnover in 1997. As the world-leading supplier of bearings and related products for the railway industry, SKF has a long history in the bearings business, and holds the strongest position in Europe where the company provides components to different high-speed trains. The Engineering and Research Center (ERC) of the SKF group in the Netherlands is complemented with product development and testing facilities around the world. The high power center has developed SKF value added products for low lift cycle cost. Today, SKF offers a wide range of railways rolling stock from high-speed trains to locomotives, coaches, and freight cars and mass transit vehicles.

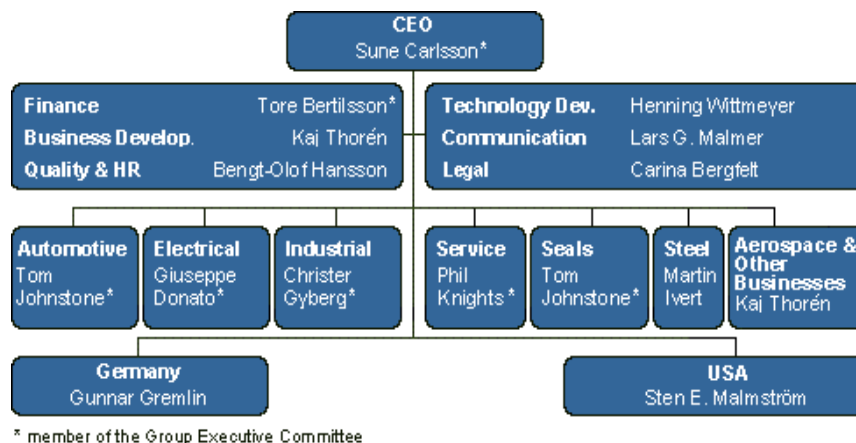


Figure 3: Organization Chart of SKF (Group)
(Internal material from SKF)

Since 1995, the SKF group has implemented group strategies. These can be summarized as “prioritizing geographical expansion in Asia, Central and Eastern Europe and the U.S.A.”⁷ “The geographic expansions are achieved through acquisition and creation of new joint venture companies.”⁸

⁷ Chairman Anders Scharp's speech from <http://www.skf.com/agm/index.html>.

⁸ Peter Augustsson's speech from <http://www.skf.com/agm/index.html>.

The Chinese population exceeds 1.3 billion and its massive economic potential has made China significant in the long run. Over past 20 years, since the economic reform in 1978, China's real GDP has been growing at an average of almost 10% a year. By 1998, China's economy was almost times bigger than it was in 1979.

Facing increasing competition and the great emerging market, SKF has adopted the group strategies and continued its expansion in the Chinese market. In 1994, SKF established a joint venture with the Shanghai Bearing Corporation, which produces rolling bearings for the automotive industry. In 1996, SKF and a subsidiary of China Railway established a joint venture, Beijing Nankou SKF Railway Bearings Co. Ltd. By 1997, SKF had three joint ventures in China, including SSMM in Shanghai which produces components of textile machinery.

In the same year, two major investments were committed. Dalian SKF Wazhou Bearings Co. Was established between SKF and Wanfangdian Bearings Co., China's largest bearing company with a total market share of more than 10 percent. SKF owns 51% equity of the new joint venture. In the seals business, the SKF's American subsidiary, Chicago Rawhide, and their Chinese partner ANZAG formed a completely new company to manufacture oil seals. To coordinate SKF's operation and manage the actual investment of SKF in China, in 1997, a new holding company was formed – SKF (China) Investment Co., Ltd.

The ex-president of SKF Group, Peter Augustsson, once said, "These deals should be regarded a part of SKF's express strategy to capture a leading position in the Chinese market. We are expecting to see a pronounced upswing in manufacturing and sales in China."

In our interview with him in November 2001, the General Manager of Beijing Nankou SKF Railway Bearings Described the motives of SKF to cooperate with their Chinese partner as follows:

"The Chinese market is potentially the largest individual national economy within next 50 years. SKF wants to be part of the market and wants to maintain their leadership in the bearing market. If you are not in China today, you may not be able to enter the Chinese market tomorrow. Therefore, SKF could lose its leadership at some point. The second point is the China will become the exporter of high technology products, moving away from producing toys and so on to the higher technology products. That's already happening, something like computer components and electronics. Gradually, the technology level components have already been produced in China, and the secondly, the other separate parts will arise. If we don't take part in that, industrialization, and improving the manufacture capability in China, the other companies will. They will then attack SKF's

traditional markets like New York in North America with low price products. So it's a question of being able to maintain market leadership, and maintain the market position."

For the objectives in their new joint venture, SKF's objective is to develop this new company into a world-class roller bearing manufacturer to serve the fast growing Chinese railway industry with modern and high quality bearings (SKF Group News, 1996).

4.1.4. Management Structure at Board level

Both partners are represented on the board of directors. Of the seven directors, SKF Group appoints four, while the remaining three are appointed by the Chinese partner – Beijing Nankou LORIC. The General Manager, a British man, is appointed by the four directors from SKF Group, and the Deputy General Manager is appointed by the Chinese partner. Both of the managers are responsible for reporting to the board, but the General Manager takes the main responsibility for managing the JV.

Among the four directors representing SKF Group, the Director and Chairman is the Divisional Chief Executive of SKF Group's Industrial Division. The second director, a Hong Kong Chinese, is the Managing Director of SKF China Limited which is the SKF sales company covering Mainland China. The third director is the Executive Director of the Railway Business Unit within the SKF Group's Industrial Division, reporting to the Director and Chairman. The fourth director, from Sweden, is the General Manager of SKF (China) Investment Ltd, which is the holding company of SKF's Chinese investment.

Among the three directors from the Chinese partner, one is the director and Vice Chairman, and he is the General Manager of the Beijing Nankou LORIC Factory, the JV partner of Beijing Nankou SKF Railway Bearings Co. Ltd. The second director is a senior manager within the LORIC (North) Group, which is the parent company of the Beijing Nankou LORIC Factory. The third director, is the Finance Director of the Beijing Nankou LORIC Factory.

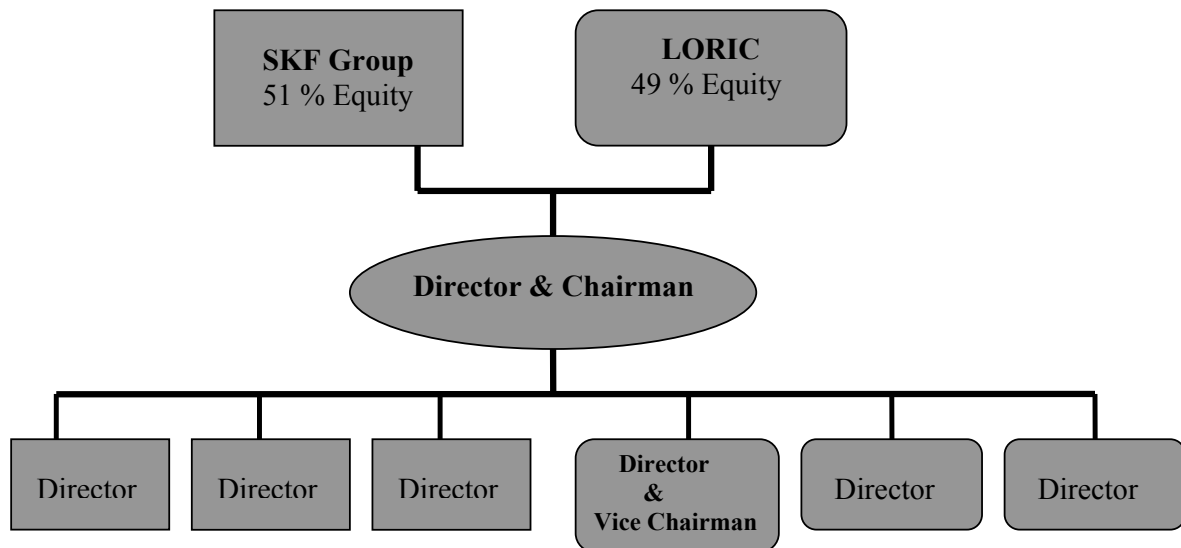


Figure 4: Board Chart of Nankou SKF JV
(Source: Internal material of SKF)

4.1.5. Management of the joint venture

In 1995, after four and half years at an SKF factory in the United Kingdom, the incumbent GM took challenge to be in and international assignment located in Shanghai, in the East of PRC. After three years in Shanghai as General Manager of SKF's first joint venture factory in China, in 1998, he moved to Beijing and replaced his predecessor as the General Manager of Beijing Nankou SKF Railways Bearings Co. Ltd. The former GM was from Sweden.

After took responsibility, the GM began to reorganize the management of the Nankou JV. As this GM said," When I first came here, there were three foreigners. There were two overseas Chinese, one from Singapore, and one from Malaysia. They thought they were better than their colleagues here were. But it was not very good. It wasn't teamwork." The two overseas Chinese were soon replaced by local Chinese managers. Therefore, the General Manager is the only foreigner in this joint venture. That was just the first step. Gradually, some talented people have been promoted or exchanged to the positions that are more appropriate for him / her. The entire management of Nankou is showed in Figure 5.

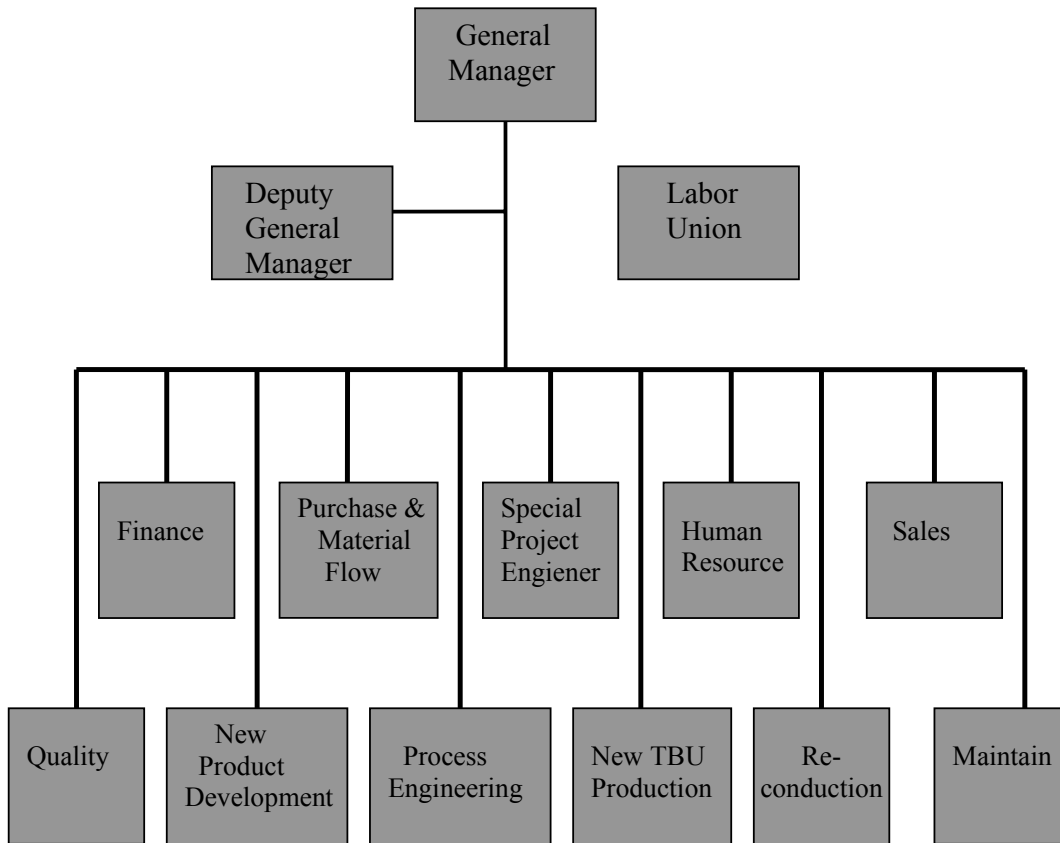


Figure 5: Organization Chart of Nankou SKF
(Source: Internal Materials from Nankou SKF)

There are 11 middle managers in Nankou SKF who worked in the Beijing Nankou Locomotive & Rolling Stock Machinery Works before the joint venture. As the GM pointed out, they are capable people who have “years of practical experience to go with their college or university education.” Those 11 managers take responsibility for managing their departments and their *fellows*. The daily work, regular meetings, and contacts with the GM are done through translators.

4.1.6. Performance of the joint venture

1999, the Nankou joint venture developed very well. The JV made their first profits after being established for 3 years. The quality and volume of production has been improved as well. In February 2001, this JV produced 23,000 sets of bearings for locomotives. The yearly throughput could reach 300,000 sets.

4.2. Analysis of Empirical Evidence

4.2.1. Management Control of the Joint Venture

Control plays an important role in the capacity of a firm to achieve its goals. In the context of a joint venture, control is considered to be the bridge between the strategic intentions and performance of the parent firms. According to Geringer and Hebert (1988), control refers to the process whereby one party influences, to different degrees, the behavior and output of another party through the use of power, authority, and a wide range of bureaucratic, cultural, and informal mechanisms. By employing various control mechanisms, the parent firms influence the joint venture to behave in ways that lead to the attainment of the parents' objectives and the protection of the parent's interests.

A review and synthesis of prior studies suggest that it is possible to distinguish 3 dimensions of IJV control: the mechanisms, through which control is exercised, the extent of control, and the focus of control (Geringer and Hebert 1988; Yan 2000). The mechanisms of control are the means by which control is exercised. The extent of control is the degree to which control is exercised. The focus of control refers to the area of the joint venture operation over which control is exercised. In order to attain comprehensive understanding about control issue in joint ventures in China, we have undertaken our research along these three dimensions of JV control.

One of our research questions is how can parents match the effective and appropriate control over the JV in order to attain the performance they expect. In order to find the answer, in this section, we take a close look at the LORIC-SKF joint venture case based on the following three aspects of control:

- Mechanisms of control
- Extent of control
- Focus of control

4.2.1.1. Mechanism of control

According to Yan (2000), the mechanisms of control are formal and an informal organizational process through which control over a joint venture is exercised by one or more of its parent companies⁹. The control issue is significant for the parent companies. The issue is associated with the extent to which parent companies believe they can manage uncertainty and risk in a competitive environment, and also the extent to which they perceive they can guide the behavior of the joint venture and introduce the best practices into their joint ventures.

Joint venture control is usually exercised through the board of directors. Chinese joint venture law and implementation regulations stipulate that the board of directors must be the highest body of authority for a joint venture. As one of director mentioned to us, *“The board plays a very important role. The directors to the board are nominated by the partners, SKF and Nankou Works, and they are the highest decision making body in the company.”* The Board meetings of Nankou SKF have been held three or four times a year.

The Board takes the responsibilities for evaluating and approving annual financial plans, production plans, expenditure plans, and distribution of dividends, personal supervision, and evaluating performance, etc. Those administrative systems and formal procedures are introduced for coordination, performance evaluation, and decision making about Nankou SKF. The mechanisms of control here are to maximize the fit between the critical resource inputs into joint ventures and then to establish corresponding management systems and technology systems to protect the implementation of the parents’ interests and investment. These mechanisms also tend to be imposed by parent companies of Nankou SKF to stop or prevent the joint venture from implementing certain activities or decisions. On the other hand, such mechanism of control constrains joint venture management by virtue of its imposed obligations and responsibilities. Schaan (1983) identifies these formal procedures, approval by parent companies and the use of the joint venture board of directors as negative control. As one of Board Director acknowledged *“We can talk about every problem that comes up. We might have different views on how to solve it, but that is normally overcome by discussions and negotiations. The only drawback is that it sometimes takes a long time to come to a conclusion. We have once or twice agreed that we cannot come to the same standpoint and then the board have to vote according to the Articles of Association.”* This procedure limits the flexibility a joint venture has in

⁹ Although the parent companies are legal owners of a joint venture, the actual power is derived from the joint venture board, which may act with some degree of independence. In this sub-section, we regard the board of Nankou SKF as a correspondingly independent unity.

adapting to future contingencies in the competitive Chinese market. Finally, these control mechanisms incur direct administrative costs. Moreover, some important indirect costs arise from the detrimental effects that inappropriate control can have on motivation and the ability of the joint venture to behave flexibly. Although there are obvious drawbacks to exercising control over a joint venture by means of the board; from parents' point of view, however, it is still a reliable means for ensuring the increasing chances of success and avoiding uncertainty and risk.

Parents of Nankou SKF also rely on critical resource inputs into the joint venture as a mechanism of control. Within Nankou SKF, both parents contribute either tangible resources such as buildings, plants, material, equipment, capital, or labor, and intangible properties such as technical know-how, managerial skills, marketing channels, training, and information. The joint venture links those resources and two organizational systems as a means by which SKF and its Chinese partner can establish a partnership to generate competitive advantages. The another value of this partnership lies in having a control mechanism through which both parents endeavor to create a synergistic context within which the joint venture can draw on their organizational systems and resources (Yan 2000). The more valid resources for which the joint venture relies on their parents, the more control the parents can exercise on joint venture. This kind of mechanism could be effective and powerful for the parents' control. It establishes interdependency between parents and joint venture and between the two parents as well. That interdependent relationship conversely enhances the commitment of the parents and the joint venture to strive in the same direction. That same direction will be one of the guarantees for the performance.

4.2.1.2. Extent of control

Two aspects of the extent of control are: (1) the degree to which parent companies exercise control over the joint venture at strategic and operational levels, and (2) the degree to which joint venture managers enjoy autonomy from the parent companies.

Geringer and Hebert (1989) find that motivation determines the degree of control in joint ventures, and that the degree of control affects the joint venture's performance. Parental control varies in degree, and can be tight, intermediate, or low. The force of control that parents exert on a JV depends on the type of benefits they seek. Tight control will be exerted when parents hope to capture either internal benefits for their ongoing units, or competitive benefits to strengthen the firm's current strategic positions. Low control is applied when parents seek either internal benefits of cost and risk sharing, or strategic benefits such as diversification. Somewhere in between is intermediate

control, used by parents when they want the newly created JV to supply intelligence or new technology.

As the case studies show, the parents of Nankou JV wish to consolidate a strategic and competitive position in the bearings market. They aim to achieve this objective by means of obtaining a low-cost and high quality-manufacturing site both for bearings to be sold in China and for parts to be incorporated in products manufactured outside of China. According to Harrigan (1986), the owners feel a particularly urgent need to assert their control over the operations of their venture when they are keen to secure competitive benefits by way of the venture and strengthen their current strategic positions in response to blurring industry boundaries and globalization. A director of the Board of Nankou SKF stated, *“The board decides the board entrusts all matters and delegates to the GM to carry out all resolutions as well as the GM to run the company after guidelines set by the board. ... All day-to-day business he can decide about. Investments are normally a board decision. Small investments GM can make but must report them to the board.”* In our case study, from both parents’ perspective, the need for exerting control is necessary. Through the process of control, parent companies ensure that the way a joint venture is managed conforms to their interests.

However, the quite interesting phenomenon that we observed in the study is that the control of the parents of Nankou JV is not always stabilized all the time. It shows a dynamic change according to the performance of the JV. Begun 20 May 1996, this year, Nankou JV is more than 5 years old. During that period, the control from the parents shows a pattern: Intermediate – Tight – Intermediate. Many MNEs enter the PRC market with a long-term strategy and may be willing to absorb initial periods of slow growth for the sake of greater long-term returns. The SKF Group, with mature business organizations in other parts of the world, might wish to initially enter the PRC market with certain product lines or services as part of an overall strategy of future expansion into additional product lines or services. From the Chinese parent’s perspective, they also down their focus in long-term return and development. Both parents considered the initial start-up period and costs associated with the joint venture might be disproportionately burdensome in order to prepare the PRC market for the introduction of the other businesses at a later time. Therefore, in the initial stage, they didn’t exert very strong or tight control over the Nankou JV, especially from a financial perspective.

However, the former GM couldn’t meet the parents’ interests and fulfill their objectives. Conversely, as one of executives in Nankou SKF said, “He (the former GM) took advantage of all of us, all of the JV partners. He built up a large debt holding us to him... this is unacceptable for the two JV partners. At

least, we should be able to benefit from them, from the company.” Worst, because of their deficit, the JV didn’t pay the fee for the electricity that the Beijing Nankou Locomotive & Rolling Stock Machinery Works provided. The consequence was that Nankou LRSMW just simply ended the supply of the electricity to the Nankou JV. Furthermore, the relationship between Nankou LRSMW and Nankou JV became tense.

The HONEYMOON was finished, and the TENSE atmosphere continued about two years. Under such a difficult operating situation and tense relationship, the JV was affected heavily, and couldn’t improve and develop as the parents had previously designed and expected. The parents realized that this difficulty would damage their “new baby” – Nankou SKF JV. Therefore, after discussion, they interfered and tried to change the difficult situation by means of tight control. They reviewed budgets and controlled the capital expenditures carefully. They changed some of the management executives of the Nankou JV, including the General Manager. The new GM had weekly meetings with the board directors. Those meetings were very much aimed at giving the directors a broad picture of what’s happening in the Nankou joint venture.

1999, the Nankou joint venture developed very well. The JV made its first profit in 3 years. The quality and volume of production has been improved as well. In February 2001, this JV produced 23,000 sets of bearings for locomotives. The yearly throughput could reach up to 300,000 sets. Furthermore, they have established a good relationship with their customers and parents. The JV is on the right track although they are still facing challenges. Both parents are happy with this great progress. Their control over the JV is becoming soft, and grants the management executives of the Nankou JV more autonomy. The weekly meetings with directors have been moved into monthly meetings. When we asked a director of the Nankou SKF Board in an interview what lesson the joint venture might learn from the experience of 1996-1998, he said to us “We have learned to have a closer follow up on what the GM is doing.”

The Nankou SKF case gives us some indications about the degree of control in joint ventures:

Firstly, the degree of parental control and autonomy is very much related to the level of trust on the part of the parents. The parents express their lack of trust and start to interfere in the affairs of the joint venture as soon as there is a certain level of deterioration in the joint venture’s performance, either against the budget or against competitors. The lack of trust may be directed towards the general manager, whom the parents probably consider incompetent when it

comes to achieving the desired performance of the joint venture. When the parents start to act accordingly, there may be two different consequences:

- As we seen in Nankou SKF, the parents replaced that general manager, and appointed another skilled general manager. This new manager has several years experience of working in Sino-foreign joint ventures for SKF. After this replacement, the joint venture achieved the performance that their parents expected. As the incumbent General Manager of Nankou SKF said to us “we have turned this company around.” The danger here is that if the parents cannot find the “skilled” general manager, they will take the risk of leaving the joint venture into confusion.
- Another possible consequence, as Killing (1983, p82.) states, is the “failure cycle of the joint venture” will inevitably be set in motion. The more they interfere, the more confusion will result, and the slower the decision-making process will be. Consequently, performance suffers. This, in turn, will encourage the parents to become even more involved, which causes the cycle to spiral downwards. In the case where the system does not return to a state of equilibrium, the outcome is that what was a minor decline in performance initially turns out to be a series of events, a major crisis forming as an end result.

Secondly, the General Manager of joint venture generally has less autonomy than they want to think they have. In fact, the joint venture’s board of directors plays a major role in the decision-making process and supervision of joint venture. This control-autonomy issue is really difficult for the parent companies to trade off. On the one hand, when competition is volatile in an environment and great strategic flexibility is necessary for a venture to be successful, the venture requires considerable autonomy in order to be able to make competitive decisions (Harrigan, 1986). On the other hand, if the joint venture is not given the enough autonomy, the parents may undermine the dedication of the venture’s people, which would inflict damage on the performance of the joint venture.

4.2.1.3. Focus of control

The investments in the Chinese railway system are unparalleled in the world. Railways are the dominating mode of transportation in China. Approximately 70 percent of all freight and 55 percent of all passenger transportation is carried by rail today. To allow China Railways to fulfill and develop their role, huge investments are made in new tracks, electrification, and signaling, as well as in new vehicles. The yearly production of freight wagons in China is about 25 000 units. The number of passenger coaches is 2 000 and the number of locomotives is 800 per year.

The prospect for the Chinese market seems good. However, SKF knows that they have to face 1,500 domestic companies and factories in China that can also produce the various bearings. Also apart from domestic companies and factories, they have to face increasingly strong competitors from Japan, Germany, and U.S.A. Furthermore, because of nation's special economic and political conditions SKF lack the local knowledge. Unstable political and economic environment is perceived to influence the Chinese market. Therefore, SKF relies on their Chinese partners to help reduce risk and also, to take advantage of local resources, SKF relies on the Chinese partners to negotiate with local governments to provide access to local elite and manage local labor.

Therefore, in the SKF-LORIC case, expertise in research and development (R&D), marketing, managing operations of JV and finances is likely to be located in SKF. SKF's need to improve competitiveness and market power determines that they take control of these major functional areas. At the same time, local knowledge is likely to reside with Chinese partners. A party whose need for the other's special resources is high has reduced bargaining power and cannot gain complete control over the joint venture (Calantone and Zhao 2001). For the Chinese parent, their motives are to gain foreign capital, advanced technology, and managerial skills through serving the advanced productions to customers in order to hold market position. The capital, advanced technology and managerial skills are the crucial factor for fulfilling their objectives. Therefore, the Chinese partners sacrifice part of their control and grant this part of control to their foreign partner. The SKF-LORIC case seems to indicate that the foreign parent may have more control over Nankou than the Chinese. This tight control, in turn, determines the mechanisms through which control is exercised on the JV.

4.2.2. Human Resource Management Practices in JV

Over the years, many problems faced by foreign partners of joint ventures in China have been unearthed. Among these problems, human resource management (HRM) is one of the most often cited. In fact, HRM is said to be the greatest single challenge to a joint venture. The problems vary from unmotivated workers, low work efficiency, and lack of horizontal cooperation among departments. The backbone of any multinational operation is an adequate human resources function. From paying salaries to approving interdepartmental moves, from hiring to firing, the human resources function is integral to the smooth and successful workings of any company. In this section, we explore how parents can match the effective and appropriate control over JV in order to attain the expected performance by analyzing the Nankou SKF case from the following perspectives:

- Recruitment
- Training
- Remuneration and rewards

4.2.2.1. Recruitment

The Chinese partner of a joint venture is usually a state-owned enterprise in the same industry. Thus, it is a natural source of labor, and many joint ventures, especially during the start-up stage, try to tap this source. Epner (1991) argues that the danger here is that if most of the workers come from the Chinese partner, the joint venture may inherit the power and social structure of the old organization. The inherited structure may become an opposing force in the new environment that the foreign partner tries to create in the joint venture. As the GM of Nankou SKF mentioned to us, *“in the past, their factory (Chinese partner) was the center of the community having the responsibility not only for providing employment but also education, medical facilities and social services for all its employees and their families.”* Thus, as a state-owned enterprise, they had a heavy burden. This is one of the reasons why state enterprises have low productivity. In fact, in developed countries, those functions are taken over by the society, not the enterprise. On the other hand, according to Marxist economic theory, economic depression, and unemployment are symptoms of the ailing economy of capitalist countries. Kornai (1985) has identified four “ethical principles of a socialist economy,” one of which is security, including the guarantee of employment. The Chinese government has, in the past, placed a high priority on reducing unemployment¹⁰. There is also a cultural reason for the pressure to provide jobs for the people. Since most of state enterprises have been falling into the deficit and survival difficulties, a lot of people have lost their jobs which are the only source of income for their families. This high unemployment rate has put the Chinese government and Chinese enterprises under pressure. As a result, overstaffing is common among state enterprises, which could be another explanation of their lower productivity. If a state enterprise is merged into a joint venture in most of cases the existing staff of the Chinese partner becomes redundant. The Chinese partner and the local labor bureau are responsible for finding new jobs for the redundant workers. Local governments thus try to persuade foreign investors to hire more workers than are needed. When SKF started the joint venture, they met the same problems. However, they “started from scratch” rather than taking over wholly existing operations from the Chinese parents. They resisted over-manning. They cut more than half of the employees and returned them to the Chinese parent company. Also, they have full control of the human resource function including recruitment, selection, performance evaluation, and compensation.

¹⁰ In the past, the Chinese government didn’t accept the concept of “unemployment”. They call the job losing as “Xia Gang” which means “off working” instead of the unemployment. The wording “unemployment” just appears few years. This could be a kind of reflection of such attitude and belief.

Otherwise, SKF would take on a heavy burden at the cost of sacrificing productivity. At the beginning, this was a most difficult thing to do. Some of the foreign companies compromised on this issue in order to get a “good deal” they thought.

Nankou SKF mainly recruits employees from their Chinese partner’s company. Some Chinese managers expressed the view that it was generally held to be prestigious to be able to join Nankou SKF. They did not only expect to receive higher pay and better welfare; the prospect was also a challenge to them. They felt that joining Nankou SKF constituted an opportunity for them to display their talents, skills and competence, as well as to learn the advanced technology and managerial skill that is provided by SKF, although they were aware that would mean increasing challenges and hard work.

The criteria for the selection of the Chinese staff and labor force for SKF were youth, good health, skillful, and relatively high education level. For the Chinese management, English language skills were desirable. So far, 18% of 568 employees are engineers and technical workers. Most of those engineers and technical workers have many years working experience and a education of university, college, and professional school. Besides, for recruiting specialists, Nankou SKF is allowed to recruit staff from the outside with or without the help of the local labor department. They are free to advertise in local newspapers and conduct interviews and written examinations to select the most suitable candidates.

The case shows that selectivity in staffing is positively related to firm performance, since sophisticated selection procedures are designed to screen out all but the very best potential employees. Qualified employees are crucial for improving product quality, developing new production, marketing, and producing high quality production. Therefore, recruiting people on the basis of knowledge, skills, and abilities is closely related to the successful job performance of individuals.

4.2.2.2. Training and development

I have learned many new skills in our Management Development Program, which is an SKF training course involving my new colleagues from other SKF units in China. I have improved and developed my skills to do more types of work, and that feels good. The more I learn, the better I feel.

- Comments from a middle manager in Nankou SKF

Training is a major emphasis at Nankou SKF. Training is wide-based and often involves cross training of production staff in order build flexibility into the manufacturing operation. Training focuses on personal, managerial, and

technical skills. In addition, training is provided on the company strategy or the SKF's culture in order for those employees, especially managers, to be able to better identify and understand the joint venture. The extensive amount of training provided to employees seems to be worthwhile, and managers feel they are sufficiently qualified to perform their jobs.

At Nankou SKF, salaried staff (e.g., supervisors and managers) receive training in technical, continuous improvement, supervisory and interpersonal skills. SKF offers a training course called the Management Development Program, which involves the employees from the different joint ventures of SKF in China. The goal is to provide managerial, administrative, and technical staff with intensive training every year.

Nankou SKF stresses the importance of training to enhance employee teamwork and production quality. Training for production employees is mostly on-the-job, but other opportunities for training are offered; for example, trained staff such as managerial, administrative, and technical staff, after finishing their training program they also take responsibility to train those production employees.

Cultural training in the SKF can encompass:

(1) The corporate norms and values that operate in the company, and with which employees may eventually identify;

The venture training can be an orientation to inform to employees about the Nankou SKF strategic mission, JV history and the business environment in which the joint venture operates, and how to manage and understand change. Training related to the corporate culture can be offered in orientation sessions provided to new employees. At Nankou, the employee orientation includes a plant tour, a brief history of the joint venture, an explanation of employee benefits, and a briefing about the various departments.

(2) English language and other training related to creation of a better communication between employees and the GM, and a better understanding of the Western culture and the SKF's offshore customers. The JV employees are to gain an enhanced cultural understanding, and then, ideally, an action-learning model will operate in which employees explore cultural values, accepted processes or policies, and cultural interpretations.

The training process is defined as the systematic acquisition of skill, rules, concepts, or attitudes that result in improved performance in the work environment (Goldstein, 1993). Joint ventures can improve the quality of

current employees by providing comprehensive training and development activities after selection. On the one hand, training could strengthen the employee's concept of production quality, teamwork, safety, and upgrade their productivity. On the other hand, the training could also enhance and develop the competence and skills of the employees in order that they can prepare for improving their job performance. In addition, cultural training in corporate values and norms can help employees understand the joint venture and parent company. This is also an important vehicle for the foreign company to help Chinese employees understand western management styles, and enhance the communication between foreign and Chinese staff in order to avoid the resistance when applying new managerial practices. The investments in training produce beneficial outcomes for the joint venture.

4.2.2.3. Remuneration and Rewards

Before the economic reform, the range of pay in most Chinese firms was narrow. Income polarization was discouraged. This was a natural outcome of the socialist ideology. Spiritual incentives were preferred to material rewards. Outstanding performers were given titles such as "model worker" and given public acclaim. It has been argued that egalitarianism has also fostered the Chinese tradition of cultivating harmonious interpersonal relationships in the workplace and playing down interpersonal competition within the organization (Osigweh and Huo, 1993). The introduction of the bonus system since the economic reform is meant to provide monetary incentives for superior job performance in Chinese industrial enterprises. At Nankou SKF, employees have been paid a 50% higher salary compared with their previous company. They also receive a bonus, which is related with their job performance and quality improvement. A good performance is rewarded by a salary increase. As a manager said to us, *"before the old factory paid us bonuses according to the quantity of people working here, now we get bonuses according to performance"*.

Rewards are a powerful incentive for augmented work performance and can be used to reinforce the strategic venture. The rewards could be used to attract, motivate, and retain employees. The effectiveness of skilled employees can be limited if they are not motivated to perform their jobs. Therefore, in a competitive joint venture, well-designed reward systems are structured to reward employees for product and efficiency improvements, and a work performance that exceeds normal work requirements.

Part V: Conclusion

5.1. Finding and implication

Findings of this study have a number of broad business implications for the management of IJVs in China. In this part, we present some interesting findings from the empirical study and its implication:

Mechanism of control

The Board of joint venture is a powerful mechanism of control. The board could stop or prevent the joint venture from implementing certain activities or decisions by evaluating and approving annual financial plans, production plans, expenditure plans, personal supervision, and evaluating performance. This study implies that when a joint venture partner's focus their control efforts on decision areas significant to those ventures, their performance benefits. However, the formal decision-making procedure is too time-consuming and lacks of flexibility. This procedure would limit the flexibility a joint venture has in adapting to future contingencies in the competitive Chinese market. Furthermore, this inflexible procedure will damage the motivation of joint venture staff.

Besides the board, critical resource inputs could be another effective mechanism of control. The more valid resources the joint venture needs from their parents, the more control the parents can exercise on the joint venture. Foreign partners should contribute more advanced skills and technology in R&D, production, and management to enhance their competitiveness by exerting more control over these main functions in the joint venture.

Extent of control

We observed in the study, the control of the parents of a joint venture is not always stabilized all the time. It shows a dynamic change according to the performance of the joint venture. This dynamic change depends on the performance of the joint venture and changes between tight-intermediate-low control.

The degree of parental control and autonomy is very much related to the level of trust on the part of the parents. The lack of trust may be directed towards the general manager, whom the parents probably consider to be incompetent when it comes to achieving the desired performance of the joint venture.

The joint venture's board of directors plays a major role in the decision-making process and supervision of the joint venture. In fact, the General Manager is only granted limited autonomy. This control-autonomy issue is really difficult for the parent companies to trade off. On the one hand, when competition is volatile in an environment, and great strategic flexibility is necessary for a venture to be successful, the parent companies should grant the venture considerable autonomy in order to be able to make competitive decisions. On the other hand, if the joint venture is not given enough autonomy, the parents may undermine the dedication of the venture's people, which would damage the performance of joint venture.

Focus of control

Dominant managerial control exercised by foreign partners is significantly and positively related to the joint venture's performance. Therefore, international managers need to recognize that the extent of managerial control they are able to exert over a joint venture's activities will have an important impact on its ability to meet their expectations. This study suggests that the preferable option for a control strategy is to pursue dominant managerial control over decisions or activities that are critical to the success of the joint venture's operations. The dominant partner in a joint venture will find it easier to manage the joint venture business activities and, consequently, have better chance to achieve higher performance.

Recruitment

Usually, when the foreign company is established with a state-owned enterprise partner, they face the same problem, that is over-minning. It would be easier for the foreign company to resist over-manning at the early stage of establishing the joint venture. The foreign company should "start from scratch" rather than take over wholly existing operations from the Chinese parents. This way they have full control over the human resource functions, including recruitment, selection, performance evaluation, and compensation. Otherwise, the foreign company would take on a heavy burden at the cost of sacrificing productivity.

The study also implies that selectivity in staffing is positively related to firm performance, since sophisticated selection procedures are designed to screen out all but the very best potential employees. Qualified employees are crucial for improving product quality, developing new production, marketing, producing high quality production. Therefore, recruiting people on the basis of knowledge, skills, and abilities is closely related with the successful job performance of individuals. This issue is essential in running joint venture

successfully. Because of the low standard of education in China, if joint venture cannot recruit qualified labor force, the productivity and quality of production cannot be improved.

Training

A Joint venture can improve the quality of current employees by providing comprehensive training and development activities after selection. On the one hand, training could strengthen the employee's concept of production quality, teamwork, safety, and upgrade their productivity. On the other hand, the training could also enhance and develop the competence and skills of the employees in order that they can improve their job performance. A foreign company should design systematic and extensive training programs to enhance the competence of the employees in order to gain competitive advantage in the Chinese market.

Remuneration and reward

Our study also implies that rewards are a powerful incentive for augmented work performance, and can be used to reinforce the strategies of the venture. The rewards could be used to attract, motivate, and retain employees. The effectiveness of skilled employees will be limited if they are not motivated to perform their jobs. Therefore, in a competitive joint venture, a well-designed reward system is structured to reward employees for product and efficiency improvements, and work performances that exceed normal work requirements. A foreign company can implement merit pay or incentive compensation systems that provide rewards to employees who meet specific goals. In addition, for protecting employees from arbitrary treatment, a formal grievance procedure may also motivate them to work harder because they can expect their efforts to be fairly rewarded.

5.2 Limitations and further research

The study has several shortcomings,

- Our focus on the foreign partner's perspective could lead to a bias in the results, and further research should incorporate perspectives from both parents.
- We did not cover other mechanisms of control. Some important mechanisms, such as staffing, contract of joint venture etc, have not been studied in this research. Further research should explore the function of other mechanisms of control in China.

- We did not study the different role that the two parents play in the control process. Further research could be conducted in this area.
- We mainly put our focus on middle managers in the issue of HRM and lack the production people and workers' perspective. Further study could be conducted at this level.

Despite these limitations, it can be claimed that this research has provided empirical evidence on the linkage between control, human resource management, and performance of IJVs in China.

- For those expatriate managing directors working in joint ventures in the PRC;
- For those companies that have already established joint ventures in the PRC; and
- For firms that are going to establish joint ventures in the PRC;

The research findings of the study should provide some insights into the formulation of their control strategy and the selection of appropriate control mechanisms and effective practices of human resource management.

Appendix

Telephone Interview Questions

- 1.** Motives of SKF in cooperating with Chinese partner (China National Railway Locomotive & Rolling Stock Industry Corporation). As we know, Nankou factory was a subsidiary of them, and at that time, this factory faced serious financial and management problems. What were your considerations on cooperating with such partner?
- 2.** After setting-up Nankou SKF, what did you plan to do in order to make the JV work (For example, production, refurbishment, recruitment, and training)?
- 3.** How did you design the management of Nankou JV? Especially, what were the initial considerations about it?
- 4.** How did you recruit and train SKF staff who were selected for managing this new JV? What kind of training program was included?
- 5.** How did you recruit and train Chinese staff who were selected for working in this new JV? Was SKF or the Chinese partner responsible for recruiting and training Chinese employees?
- 6.** What is the decision-making process of the Board of Nankou SKF? What is the Board's responsibility over Nankou SKF? What kind of role does Board play?
- 7.** From 1996 to 1998, Nankou SKF fell into some problems. What kind of problems did you meet at that time? What did the directors of Board do to solve these problems besides replacing the former General Manager?
- 8.** How did you manage collaboration among the directors in your board? How was the relationship among the directors? Did you feel difficulty in cooperating with the Chinese partner? Why?
- 9.** What kind of autonomy would the General Managers of JV have in terms of managing JV?
- 10.** Could you give us some information about the former GM (1996-1999) and his work experience in Nankou JV? And what kind of lesson might SKF learn from this?
- 11.** During my visiting in Nankou SKF, I heard a lot Chinese managers talking

about the Management Development Program. Why did SKF set up such program? What does this program contain? Do you have other programs for the technician employees? How do you develop the competence of Chinese employee?

12. How long is the duration of the JV contract? What is SKF's future strategy for this JV after the expiry of the contract?

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