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SUCCESS FACTORS FOR MANAGING INTERNATIONAL JOINT VENTURES IN CHINA: A REVIEW AND AN INTEGRATIVE FRAMEWORK

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ABSTRACT

International joint ventures (IJV) are an important organizational mode for expanding and sustaining global business and have been of special relevance for the emerging Chinese market for decades. While IJVs offer specific economic advantages they also present serious management problems that lead to high failure rates, especially in developing countries. Because of the strategic relevance of IJVs and corresponding management challenges, research on success factors for managing IJVs in China has received broad attention, resulting in a variety of studies. However, there are no conceptual syntheses of the literature to date and further development in the field is hampered by both a lack of consolidation of what is known and identification of viable avenues for future research. We address this gap by building on existing concepts in the field, developing them further and synthesizing them into an integrative, theory-based framework of IJV success factors. We use this framework to systematically depict the results of both empirical studies related to Sino-foreign IJVs and to IJVs in general. Finally, we draw important implications from the research and propose potential paths for future study.

Keywords: International Joint Ventures, People's Republic of China, Performance, Review, Success Factors

INTRODUCTION

International joint ventures (IJVs) are separate legal organizational entities partially held by parent firms originating from different countries (Shenkar and Zeira, 1987, p. 547) that are extensively used in a world of globalized markets and competition. In addition to other economic benefits, IJVs promise coordination cost advantages, improved knowledge flows, shared risks, and access to complementary resources (Contractor and Lorange, 2002). Due to these advantages, and influenced by governmental interests, IJVs have been a preferred form of market entry and governance structure in China since the mid 1980s (e.g. Walsh, Wang and Xin, 1999). Although China's entry into the World Trade Organization (WTO) led to a major increase of wholly foreign-owned enterprises, joint ventures still play a major role in post-WTO China (e.g. Meschi and Cheng, 2002; Pan and Chi, 1999).

Despite their widespread use, IJVs, like other entry modes (Delios and Beamish, 2004), do not guarantee economic success. Research shows that many IJVs – particularly in developing countries (Beamish, 1988; Killing, 1983; Sim and Ali, 1998) – suffer from unsatisfactory performance and serious management problems. Consequently, a high percentage of IJVs are terminated before accomplishing the goals pursued by their partners (e.g. Vanhonacker, 1997). An important stream of research centres its attention on factors that influence IJV performance (e.g. Luo, 1997; Park and Ungson, 1997). However, because these studies examine different factors, abstain from re-tests, and involve a number of countries, industries, and methodologies, researchers and practitioners alike are confronted with conflicting results and a vast number of unconsolidated recommendations. Therefore, it is difficult to discern what conclusions are warranted and to make recommendations to direct future research.

This paper generates a theory-based framework that allows for systematic analysis of the

IJV research. We apply this model to studies published in leading management journals during the last 15 years. In order to examine the success factors for managing IJVs in China and to isolate possible host country effects, we compare the results for Chinese IJVs with those from non-China studies. Consequently, the paper proposes a roadmap for future research on China, as well as for the IJV field more generally.

A COMPREHENSIVE MODEL OF IJV PERFORMANCE AND SUCCESS FACTORS

In order to avoid arbitrary, unsystematic conclusions and to identify significant overlaps, differences and research gaps, it is necessary to use a theory-based, conceptual framework. Although the great majority of empirical IJV studies do provide problem-specific literature reviews (e.g. Delios and Beamish, 1999; Li, Lam and Qian, 2001), they neither develop nor refer to a comprehensive framework. Furthermore, even the four relevant reviews on this literature apply different approaches. For example, Larimo (2003), who summarizes the IJV research in the Asian region, does not use a conceptual framework at all. Osland and Cavusgil (1996), who use contingency theory to derive a basic model for their exploratory research and literature synthesis of Sino-U.S. Joint Venture (JV) performance, do not include a number of elements and linkages that are frequently studied. Parkhe (1993; 2004), on the other hand, develops an integrative framework based on reviews of the IJV literature and respective theories. It consists of four interrelated dimensions, namely ‘motives for IJV formation’, ‘partner selection/characteristics’, ‘IJV stability/performance’ and ‘control/conflict’ (Parkhe, 1993). Additionally, the lifecycle stage model of joint ventures (Parkhe, 2004, p. 80) emphasizes the importance of process-related variables such as partner screening, selection, monitoring, and organizational learning. Finally, the review of factors influencing IJV performance by Robson, Leonidou and Katsikeas (2002) proposes an advanced model derived from and used for organizing the various success factors

found in a broad range of previous studies. In this paper we build on these reviews and propose an integrative, theory-based framework.

In our approach we assume that, independently of special phenotypes, IJVs are basically cooperative, organizational arrangements that involve three entities: at least two founding parents from different countries and the joint venture itself (cf. Contractor and Lorange, 2002; Shenkar and Zeira, 1987). Therefore, these three organizational entities and their linkages constitute the primary focal point of our model. Our conceptual framework (in Figure 1) is deduced from prominent organizational and economic theories frequently used in IJV research. It builds particularly on insights from (a) the resource-based view of the firm, (b) organizational economics, (c) institutional perspective and industrial organization economics and (d) contingency theory.

Insert Figure 1 about here

According to the resource-based view of the firm (e.g. Barney, 1991), combining complementary resources in order to create competitive advantages for the founding partners is a major reason for forming IJVs (Contractor and Lorange, 2002). In addition, the resource-based view (RBV) directs research interests to tangible or intangible resources as main drivers of IJV success. RBV has received special attention among IJV researchers with regard to motives, partner choice, management, control, and performance (Buckley and Glaister (2002). Applying RBV reasoning, resources of the parent firms and the IJV, whether tangible or intangible, are relevant success factors. Therefore, we assign ‘*resource*’ categories for the three organizational entities (founding parents and the IJV itself) of our model. As parent organizations are unable to generate all the resources necessary to go it alone, they enter into transactions with organizations

that can supply the required resources. At the same time, they seek to minimize their dependence on others for critical resources and maximize others' dependence on them particularly through organizational control and coordination mechanisms. Hence, applying resource dependency reasoning sheds light on organizational decisions arising from non-overlapping interests of the IJV partners and their stakeholders, as well as the impact of crucial resources and conflict management on the performance of IJVs and their parent firms.

Recent studies in the IJV literature address process-related issues and analyze, for instance, the conflict resolution strategies pursued by partners (Lin and Germain, 1998). Hence, we explicitly incorporate the category *relationship management* that emphasizes conflict and inter-partner management issues. This is of special interest for research on IJVs in China due to the highly relationship-oriented culture – represented for example by the importance of Guanxi (cf. Vanhonacker, 1997; Wang, Wee and Koh, 1999).

Another theoretical umbrella often applied in studies of success factors of IJVs is organizational economics. Transaction cost theory (e.g. Williamson, 1996), in particular, is used to propose and verify the economic rationale embedded in different entry modes such as licensing, contractual or equity joint ventures and wholly foreign owned subsidiaries (e.g. Delios and Beamish, 1999). In contrast, principal agent theory (e.g. Jensen and Meckling, 1976) focuses on problems and risks inherent in delegation due to interest divergence, asymmetric information and opportunistic behavior. In order to reduce or eliminate these inefficiencies, agency theory proposes different means such as goal alignment or imposing control structures. With regard to successfully founding and managing an IJV, organizational economics clearly emphasizes the need for appropriate control and governance structures. Accordingly, we summarize these respective variables dealing primarily with ownership and control issues into a discrete category

of *IJV governance*.

In addition to internal factors, a comprehensive model of IJV performance has to account for the influence of external determinants, i.e. variables that can neither be fully governed by the IJV nor by its parent firms (e.g. Robson et al., 2002). The institutional perspective (e.g. DiMaggio and Powell, 1983) and industrial organization economics (e.g. Porter, 1980) are the most prominent and applied theoretical approaches which are relevant for identifying the external factors of IJV success. Given the strategic relevance of external factors and their frequent use in research studies (e.g. Delios and Beamish, 1999; Yiu and Makino, 2002), we incorporate the concepts of '*regulatory regime*', '*industry and competition*', and '*informal institutions*' into the category of *external environment* into our model.¹

Finally, contingency theory offers a well-accepted conceptual approach which postulates that the "fit" between internal and external elements of organizations leads to superior performance and success (e.g. Donaldson, 2001). For example, Park and Ungson (1997) show that compatibility of IJV partner firms and their organizational attributes affect the dissolution of IJVs. Our framework addresses *all* the fit linkages (see Figure 1). However, because of a lack of studies testing for external impacts, we explicitly depict only three 'fit' clusters: (I) *foreign parent-local parent fit*, (II) *foreign parent-IJV fit*, and (III) *local parent-IJV fit*.

To reduce the level of complexity of the model we use identical sub-categories across the three parent and IJV fit categories. For example, we apply '*constitutional characteristics*' (e.g. size, culture, industry, technology), '*resources*' (e.g. human, financial, knowledge), and '*process*' to all organizational entities as well as to the fit-categories (cf. Figure 1). At the same time, as joint ventures are founded and maintained to allow parent organizations to achieve specific goals (e.g. Hill and Hellriegel, 1994; Robins, Tallman and Fladmoe-Lindquist, 2002; Shenkar and

Zeira, 1987), the sub-category ‘*IJV-related strategies*,’ which includes frequently analyzed variables such as goals, exit strategies and performance expectations, must be distinguished with regard to the foreign and local parents. IJV-related goals and the strategic intents of the parent organizations should be as complementary as possible, i.e. should ‘fit’, in order to reach a “strategic win-win match between the two partners” (Lorange and Roos, 1992, p. 30).

Our model, although still simplifying the real world of IJVs, offers a comprehensive framework based on a multi-theory perspective. In the following section we apply the framework to review the success factor studies of Sino-foreign IJVs as well as non-China IJVs to identify research overlaps, discrepancies and gaps.

METHOD

Due to methodological problems of meta-analyses that stem from the application of varied operationalizations and statistical methods within the studies under review (e.g. Lipsey and Wilson, 2001), we present a qualitative review of the empirical studies of the success factors in IJVs. We draw upon procedures that have been used in comparable and widely acknowledged reviews that analyze, for instance, success factors of product development (Brown and Eisenhardt, 1995) and base our review on seven top-ranked, empirically oriented journals (*AMJ*, *ASQ*, *JIBS*, *JWB*, *MIR*, *OSC*, *SMJ*). Our review of these journals spans 1991 to 2005, covering the height of research on IJVs (Robson et al., 2002). Both the concentration on peer-reviewed, high quality research and the time span we chose assures a comprehensive reflection of the state-of-the-art in this field of research.

A major methodological problem faced by almost any review paper is to accurately single out relevant studies based on clear selection criteria. The more ambiguous central terms are, the greater the risk of wrongly including studies and, consequently, of deriving incorrect conclusions

from messy data. With regard to our research subject such problems arise mainly from three sources. Firstly, the central term ‘international joint venture’ has different meanings in the literature (cf. Yiu and Makino, 2002) and terms such as ‘strategic alliances’ or ‘foreign direct investment’ are sometimes used as synonyms. Therefore, only studies that clearly refer to the terms ‘joint venture (JV)’, ‘international joint venture (IJV)’, ‘equity joint venture (EJV)’ and/or ‘contractual or cooperative joint venture (CJV)’ were included in our study. Studies that use terms such as ‘strategic alliances’ or ‘foreign direct investment’ without further specification (e.g. Luo and Park, 2001, p. 147) had to be excluded from our sample. From similar reasons we had to exclude studies that examine general success factors of foreign market entry without distinguishing between entry modes (e.g. Woodcock, Beamish and Makino, 1994; Nitsch, Beamish and Makino, 1996).

Secondly, one has to carefully ascertain whether a study is exclusively based on China as the host country of investment, which we will further refer to as the China group, or explicitly excludes Chinese IJV partners, i.e. the non-China group in order to compare results between distinct samples. In order to generate highly homogenous PRC and non-PRC samples and avoid confounding the results we excluded studies that do not distinguish between these groups such as, for instance, Makino and Beamish (1998) or Delios and Beamish (2001; 2004). With regard to the non-PRC sample we included studies that either do not focus on China or those where Chinese IJV were marginal (less than 6% of total sample).

Thirdly, we include only studies that analyze interrelations between independent variables, (i.e. success factors), and dependent variables, (i.e. performance indicators) based on quantitative data, develop and test hypotheses, and use statistical analyses. This includes the problem of distinguishing between direct and indirect success factors and various performance

measures.²

As a consequence of the above complexities, a pure keyword-based search and selection process was inappropriate. Therefore, we analyzed full titles, key words and abstracts of a total of 4,473 articles based on both computerized and manual procedures. We found a total of 248 articles that study IJVs at large. Using the selection criteria noted above we identified 16 studies that examine success factors of Sino-foreign JVs and 25 studies that focus on success factors of IJVs in countries other than China. The studies assigned to the China and non-China group are listed in the note to Appendix A and B, respectively. With regard to our selection it is worth noting that Hennart and Zeng (2002), Park and Ungson (1997) and Reuer and Leiblein (2000) use a mixed sample of both domestic and international joint ventures. Given that the sample size of IJVs outnumbers domestic joint ventures, we decided to include these studies in our analysis.

RESULTS

As it is impossible to thoroughly trace *all* issues and insights related to the contributions in the 41 papers reviewed, our objective is to provide the reader with a systematic overview that allows for a purposeful consolidation of the literature. Although research on success factors for managing Sino-foreign IJVs is our focus, comparing respective data and results with the non-PRC group offers additional insights, helps to identify possible host country features and leads to new research opportunities.

Empirical Foundation of Studies

The sample sizes of empirical studies of success factors for managing Sino-foreign IJVs range from 68 (Meschi and Cheng, 2002) to 898 observations (Li et al., 2001), indicating statistically reliable results. The average sample size of PRC-related IJV studies is 230, similar to those of non-China studies, i.e. 228.³ With regard to industrial sectors the majority of Sino-

foreign studies are based on the manufacturing industry (11 of 16 articles, i.e. 68%). Two articles include both manufacturing and service industries, one article looks at IJVs from the manufacturing, service and retail sectors (Wang et al., 1999), and two articles do not explicitly specify the industry (Luo and Park, 2004; Luo and Tan, 2003). Similarly, most non-China studies analyze IJVs within the manufacturing sector (76%), while only six studies additionally include the service industry (Beamish and Kachra, 2004; Delios, Inkpen and Ross, 2004; Glaister and Buckley, 1999; Lane, Salk and Lyles, 2001; Lyles and Baird, 1994; Steensma and Lyles, 2000).

Performance Measures Applied

China-focused studies use various methods to assess and measure IJV performance. Some studies apply objective performance indicators such as return on investment (RoI) or return on assets (RoA), market share or sales only (e.g. Li et al., 2001; Luo, 2001). Other studies rely on subjective performance measurement, i.e. assessments of managers who were asked to evaluate and classify the success of foreign entities (e.g. Luo, 2002b). In total, eight articles use objective performance measurement and eight studies conduct subjective assessments. Almost all studies apply multidimensional performance constructs (e.g. Luo and Park, 2004). In comparison, non-China articles rely to a higher degree on subjective performance assessments (15 studies) than on objective measures (nine studies) or a mixture of both measurements (Pothukuchi, Damanpour, Choi, Chen and Park, 2002).

Theoretical Foundation

Only a few empirical studies, independent of their country focus, seriously adopt and apply organizational or economic theories and even fewer provide conclusions regarding theory development. The majority of studies substantiate a few hypothesized relationships in light of a selected theory. Hence, not surprisingly, both China- and non-China-related studies primarily

refer to the currently most popular theories such as transaction cost economics (TCE), the resource-based view of the firm (RBV), and organizational learning (see Table 1).

Insert Table 1 about here

For example, based on a few fundamental assumptions and rationales, recently summarized in the context of international entry strategies by Zhao, Luo and Suh (2004), TCE reasoning has been used as the prominent theoretical explanation for entry mode choices and IJV success alike. According to TCE, management has to choose the organizational mode that minimizes transaction costs. Specific environmental conditions in China, including both formal and informal institutional factors, may induce corresponding IJV modes and contracts that aim to ensure efficient governance and cooperation (e.g. Luo and Tan, 2003; Luo 2002c). Similar arguments hold for non-China studies (e.g. Beamish and Kachra, 2004; Mjoen and Tallman, 1997). A recent study provides some evidence that TC-enhanced entry mode choices lead to superior performance (Brouthers, Brouthers and Werner, 2003). Following their arguments, future research may profit from combining different theoretical approaches as well as from dynamic analyses of significant institutional changes on transaction costs and resources. However, it will have to take into account that the appropriateness of TCE reasoning has been questioned both for developing or transition economies like China (e.g. Luo, Shenkar and Nyaw, 2001, p. 56) and for intermediate organizational modes, i.e. IJVs in general, as important moderating effects are neglected (Zhao et al., 2004).

Turning to RBV, the applicability of RBV-reasoning in China-related studies has been justified both for exploiting and exploring distinct resources. Luo (2002b), for instance, offers evidence that exploiting existing capabilities through product diversification in China may

increase economic returns. With regard to exploration, he shows that IJVs can enable firms in an emerging market such as China to leverage their current resources or to preempt new opportunities by developing their resources in a dynamic context. Furthermore, combining advanced production technologies and intangible resources such as brand name or process know-how with cheap labor and growing demand in emerging economies, including China, promises competitive advantages for foreign companies (Isobe, Makino and Montgomery, 2000, p. 470).

While an organizational learning perspective has only been implicitly used by studies in the PRC sample (Isobe et al., 2000; Luo, 2001), it is an important foundation of non-China studies (for references see Table 1). These studies assume that the success of an IJV is substantially influenced by its learning capability so structural and process-related factors that foster or prevent organizational learning are operationalized and tested empirically. Consequently, organizational learning capabilities of the foreign parent firm, measured for instance as knowledge about the local market (Beamish and Kachra, 2004; Makino and Delios, 1996), are addressed. As the organizational learning approach and the knowledge-based view of the firm offer alternative explanations for IJV formation (Steensma and Lyles, 2000) and fill obvious gaps with regard to important process variables which are not analyzed in the China sample, applying this theoretical perspective to the Chinese context seems to be a promising approach for future research.

Regarding social or relational issues, social exchange theory (SET) is of special interest within the traditional Confucian Chinese context as it considers the greater importance of socially embedded coordination mechanisms and implicit contracts compared to institutional arrangements such as explicit contracts (Luo, 2002c). The findings of Lin and Germain (1998) suggest, for instance, that implicit collaboration outperforms explicit, legalistic contracts and,

thus, support Luo's (2002c) arguments. The findings of Steensma and Lyles's (2000) study of Hungarian IJVs indicate that social embeddedness is of immediate relevance in other cultures as well. For example, they show that balanced management control of the venture fosters social exchange and reduces counter-productive conflicts. Intensifying applications of SET, especially in the PRC context, is another promising research stream as it emphasizes conflict resolution strategies (Lin and Germain, 1998) and is in line with a recent call for more behavioral explanations of IJV success (Parkhe, 2004).

Factors Determining IJV Performance

Across the 16 empirical studies on IJV performance in China and the 25 non-China articles, a total of 82 different China and 141 different non-China direct success factors are distinguished and analyzed in 127 and 196 factor-performance tests, respectively. Additionally, 50 China and 81 non-China factor-performance relationships are moderated by 32 and 66 indirect success factors, respectively. Appendix A provides the detailed information on all factor-performance tests for Sino-foreign IJVs and Appendix B provides the same information for other (non China) IJVs. These numbers shed light on a phenomenon that is striking: current research is characterized by a tendency to add new factors rather than re-test existing factors in different samples and over time. Thus, important questions such as "Do success factors of the early investment period still apply?" or "How generalizable are certain success factors?" can not yet be fully answered. However, aggregating success factor clusters based on our conceptual framework reveals research areas that appear to be covered either intensively, i.e. 'research accumulation', or sparsely, i.e. 'research gaps', in the current literature of Sino-foreign studies versus non-China studies. The number of tests for each type of IJVs is provided in brackets in Figure 2, next to each category.

Insert Figure 2 about here

Reflecting on the distribution of direct success factors studied in Sino-foreign JVs *IJV attributes* receive the most attention. The focus is on ‘*constitutional characteristics*’ such as ‘size’, ‘location’ (e.g. whether coastal or not), ‘length of operation’ or ‘industry.’ These factors account for approximately 20% of all factor-performance tests in our sample, while variables focusing on ‘*resources*’ are rare and variables focusing on ‘*processes*’ are absent from research. Issues and factors related to *IJV governance*, i.e. ‘*ownership*’ and ‘*control*’ (ca. 17%), and *foreign parent-local parent fit*, especially ‘*cultural distance*’ and ‘*goal congruity*’ (ca. 12%) have received major research interest. With regard to *foreign parents attributes* research focuses on ‘*IJV-related strategy*’ issues and determinants, while ‘*constitutional characteristics*’ and ‘*resources*’ dominate research on *local parent firms*.

Whereas non-China studies cover all major categories of variables (i.e. *attributes*, *fit*, *relationship management*, *governance* and *environment*) to a broader extent than do the China studies, some categories obviously attract more research interest than others. About one fifth of all factor-performance tests can be subsumed under the category *foreign parent attributes* (18%)⁴, and about 14% focus each on *foreign parent-local parent fit*, *IJV attributes* and *IJV governance*. On the other hand, *local parent attributes* (4%) and *foreign- and local parent-IJV fit* (about 2.5% each) have received relatively little attention. In the following sections we analyze important findings within each category.

IJV parent attributes

Success of Sino-foreign IJVs depends on the resource base of the local parent firm (e.g. size, market power, and experience) and on the strategic importance of the IJV for the foreign

parent (esp. Luo 1997; Isobe et al., 2000). With regard to China the commonly held assumption of a first mover advantage, i.e. early entry (e.g. to achieve a quasi monopolistic rent or a stronger brand loyalty), receives only partial support. Whereas Isobe et al. (2000) confirm the competitive advantage of early entry, Li et al. (2001, p. 128) find support for a late entry strategy. However, more research is necessary to substantiate these findings. This becomes particularly apparent if one considers the results of the larger number of non-PRC studies. In the non-PRC studies a variety of success factors related to *parent attributes* have been tested but only a few show unequivocal results (e.g. foreign parent support). In addition, opposite to the findings in the PRC studies (e.g., Luo, 1997) the size of local parent firm shows a negative impact on IJV performance (Merchant, 2000; 2002) and the ‘country of origin’ seems to be irrelevant (e.g. Choi and Beamish, 2004, Pothukuchi et al., 2002) in the non-China studies. In addition, there is some evidence that IJVs with foreign parents originating from newly industrialized countries outperform those with foreign parents from developed countries (Lee and Beamish, 1995).

Longitudinal research approaches should also be fostered as certain success factors (particularly constitutional characteristics) may gain or lose relevance over time. For example, while Luo (1997) reports a significantly positive impact of ‘state-ownership’ on IJV performance, this result vanishes in Luo’s later study (Luo, 2002b), probably as a result of recent economic reforms including the decentralization of state-owned firms and the increasing similarity of FDI policies among different provinces of the PRC. Overall, our brief and selective analysis of *IJV parents’ attributes* highlights the need for (a) retests of single findings, (b) adoption of more differentiated variables found in non-China studies, and (c) longitudinal success factor studies with regard to the performance of IJVs in the PRC.

IJV attributes

Interestingly, research results indicate that with the exception of ‘length of operation / age’, variables frequently tested under ‘*constitutional characteristics*’ generally show no correlation with performance measures. The commonly held hypothesis that governmentally privileged coastal regions in China offer competitive advantages over locations elsewhere in China has not been confirmed. Even more, Meschi and Cheng (2002, p. 124) find that IJVs located inland outperform those located in coastal regions. However, because the authors used stock price reactions as their performance measure, included only a small number of inland investments (9) compared to coastal locations (57), and did not test for industry effects, further research is required to substantiate the impact of IJV location in China.

‘Size’ of Sino-foreign JVs has been studied frequently, but shows no significant relationship with performance (e.g. Luo, 2001; 2002b; Luo et al., 2001). This slightly contradicts results of non-China studies that show IJV ‘size’ to have a mixed impact on performance (e.g. Dhanaraj and Beamish, 2004; Hennart and Zeng, 2002). A possible explanation for this discrepancy will be provided below, but future research is certainly warranted. While ‘length of operation/age’ shows mixed results in non-China studies, it is strongly related to performance in China studies. Before concluding that this proves a China-specific success factor, a potential survival bias has to be ruled out. Since different variables of IJV ‘resources’ have been tested by only one study so far (Luo, 1995), we must be cautious in drawing any conclusions.

‘Fit’-categories

Independent variables that consider (dis-)similarities as relevant predictors of IJV success are mainly tested with regard to the *foreign parent-local parent fit* in both the China- and non-China-sample. ‘Fit’ – measured for instance through ‘product relatedness’ or ‘goal congruity’ – has been shown to determine success of IJVs in China, while the picture based on non-China

studies is ambiguous. Although ‘cultural distance’ between foreign and local parents is the single most empirically tested fit factor in both samples, findings regarding correlations between cultural distance and performance are mixed in both samples. With regard to China, one study shows some positive correlations when high cultural distance is present (Li et al., 2001), while other studies find no relationship (e.g. Luo, 2002b; Luo and Tan, 2003) or negative correlations with IJV performance (e.g. Lin and Germain, 1998; Luo, 2002a; Luo and Park, 2004). While at least some of the inconsistent results may be explained by moderating variables such as technology transfer (Li et al., 2001), there is clearly a need for further empirical tests or a new conceptual approach in order to understand the reasons behind these inconsistent results regarding cultural distance. All other ‘fit’-relationships, i.e. whether the characteristics of parent organizations match those of the IJV or whether IJV characteristics match external requirements are neglected in the existing empirical research (except inter-parent and IJV-parent ‘cooperative behavior’: Luo and Park, 2004).

Relationship management

Research results indicate that personal relationships, trust, and cooperative decision making are important predictors of IJV success in both China and non-China IJVs. Success is significantly affected by various conflicts of interest of the organizations and persons involved in a venture. Accordingly, both China and non-China studies show a similar focus on factors that are related to ‘*conflict*’ or ‘*behavior*’ taking place between IJV actors. In the China subset of firms, Lin and Germain (1998), for example, investigate the effectiveness of different conflict resolution strategies and find that problem-solving is the most appropriate approach in Sino-foreign JVs. In a similar vein, cooperative behavior has generally been shown to pay off for partners involved in Sino-foreign JVs (e.g. Luo, 1997; 2002c). In addition significant positive

results on performance are obtained for ‘relationship age’ in IJVs outside China (e.g. Glaister and Buckley, 1999; Pothukuchi et al., 2002) as well as in Sino IJVs (Lin and Germain, 1998). When it comes to *relationship management* it is striking that research on Chinese IJVs puts relatively more emphasis on this predictor. Given the high number of significant correlations found in the research, as well as the under-representation of relevant theories (e.g. bargaining power theory), this area appears to be a fruitful avenue for future research (Parkhe, 1993; 2004).

IJV governance

Success factors related to different forms of IJV-‘ownership’, in particular equity status, and IJV-‘control’, have been frequently tested within Chinese (22 of 127 factor-performance relationships) and non-Chinese settings (27 of 196). The dominance of economic theories which centre on efficient institutional and organizational arrangements may partially explain the fact that within the China subset alone nine out of 16 studies measure the direct or indirect performance impact of different equity stakes held by foreign parents, although the findings are ambiguous. While few studies find that substantial equity ownership by the foreign partner has a positive impact on IJV performance (Luo, 1997; 2002b; Meschi and Cheng, 2002) others find no correlation at all (Li et al., 2001; Luo and Tan, 2003) or mixed results (Luo, 2001). At the same time, results with regard to the exercise of IJV-‘control’ predominantly support the hypothesis that tight control – in particular by foreign parents – has a significant positive impact on IJV performance, although the need for further differentiation is articulated (Luo et al., 2001, p. 55):

While overall control executed by a foreign parent is important to its satisfaction with IJV performance, overall control is not associated with Chinese firm’s satisfaction. Chinese partners seem to attach greater value to acquiring knowledge and skills from foreign partners than to overall control of IJV operations.

As there is an obvious connection to the factor ‘foreign partner’s high commitment to technology transfer’ as well as to the notion that foreign dominant control in China is risky

(Osland and Cavusgil, 1996), it might be fruitful to combine these perspectives in future research in order to identify possible moderating effects. Additionally, future work could examine a possible China-specific effect in favor of a dominant control position held by the foreign parent in the light of similar findings in non-China studies (e.g. Dhanaraj and Beamish, 2004).

External Environment of the IJV

Given the unique and changing political situation in China, one would expect a rich variety of studies of independent variables related to the external environment of IJVs, particularly regulatory and institutional determinants. Surprisingly, only one study tests an IJV performance effect of the ‘*regulatory regime*’ (Luo, 2002b). The author finds that high ‘institutional deterrence’ significantly negatively impacts IJV performance, especially for those IJVs that are more dependent on governmentally controlled resources and infrastructure. While ‘institutional deterrence’ has not been tested in other countries so far, similar approaches, e.g. ‘local ownership restrictions’ (Makino and Delios, 1996), have also been shown to have a negative impact on performance. While these findings may be interpreted as supporting institutionalization theory, additional studies are needed, given the small empirical foundation. Interestingly, studies of non-China IJVs do not find a correlation between political risks, political openness and social openness on IJV success.

Findings regarding success factors related to industry and competition characteristics in the Chinese and non-Chinese contexts generally show expected results, such as the finding that industry growth has a positive impact on IJV performance. Comparing non-China and China studies, we find that while studies in China report significant, positive impacts of ‘industry growth’, ‘supporting infrastructure’ and ‘industry opportunities’ on performance (e.g. Isobe et al., 2000; Luo, 2002b), factors examined in non-China studies are quite heterogeneous and the

results are inconsistent. There is no study on informal institutions in both types of IJV studies.

DISCUSSION

We emphasize the following key points in this section: (a) the consequences of research gaps that are apparent while applying our framework, (b) the evidence of important consistencies and inconsistencies of findings published in both the China and non-China sample and (c) methodological problems related to IJV success factor research more generally. We conclude this section by identifying some implications for future research.

General and China-specific Research Gaps

Not surprisingly, IJV success factor research in other countries reveals a similar picture to what we find in Sino-foreign IJV research. This is probably due to the fact that non-China studies are primarily conducted in emerging countries, such as Hungary (Lane et al., 2001), India (Pothukuchi et al., 2002) or Bangladesh (Sim and Ali, 1998) that have similar levels of risk and uncertainty. Consequently, the research gaps are similar, as well. While structural determinants of IJV success have been studied extensively, process-related factors have been widely neglected, at least in our top-quality journal research sample. Factors such as organizational learning, knowledge generation and flow, information and communication policies, trust-building measures or organizational and individual adaptability have been hypothesized to influence IJV performance (e.g. Luo, 2001), but hardly tested empirically (except for studies such as Lane et al., 2001 in the non-China group). Building on the basic assumption that acquiring relevant knowledge and skills constitutes a critical rationale for forming and keeping a JV (e.g. Kogut, 1988) extending process-related insights within this research field will significantly contribute to theory building (e.g. organizational learning, cf. Doz, 1996).

Independently from the countries under study, there is a research gap regarding success

factors that focus on fit between foreign or local parents versus IJV or on environmental fit. As the regulatory regime should have a major influence on IJV performance in emerging economies like the PRC (e.g. Osland and Cavusgil, 1996) we propose that researchers put more emphasis on independent variables such as economic/tax incentives or political instability/risk (e.g., Robson et al., 2002). Moreover, while cultural distance between IJV parent organizations, IJV governance (esp. control issues) or regulatory regime have been examined as independent factors, their interdependencies have been neglected. Apparently, it makes a difference with regard to performance whether the IJV of cultural different parents is located in one or the other country. Future research should focus on the manifestation of cultural norms and values in different institutional forms which in turn constitute the national and/or regional competitive environment of an IJV. Finally, changes within this environment and its impact are of special interest. The early stages of the market development within the PRC have been characterized by a high degree of uncertainty and risk. Accordingly, theories, concepts, and factors that draw upon organizational and institutional measures to manage uncertainty have been a primary area of focus. Consequently, changes in China may lead IJV researchers to turn to other theories and test different variables in the future. However, in order to prove whether and which IJV success factors change over time, either longitudinal success factor studies or surveys that build on past conceptualizations are needed.

Turning to China-specific research gaps, ‘*process*’ variables are widely neglected whereas they have received some attention in non-China studies. The latter show the relevance of ‘IJV knowledge acquisition from foreign parent’ (Lyles and Salk, 1996) or, more generally, ‘IJV learning’ (Steensma and Lyles, 2000). Drawing on research in this area, future IJV research would benefit from examination of the impact of process variables within the competitive

environment of the PRC. *Foreign parent attributes* and especially '*IJV-related strategy*' are other examples that are relatively understudied in China. However, instead of deriving related, but slightly different success factors, researchers focusing on Sino-foreign JVs should consider replicating existing studies from other countries in order to generate even more valuable insights. Additionally, such an approach would be appropriate to prove a potential "host country effect" with regard to certain success factors in China.

Consistencies and Discrepancies between Sino-Foreign and non-China IJV Findings

There have been calls for comparing relevant findings of both Sino-foreign and non-China groups in order to identify significant differences and similarities, and to control for frequently assumed host country effects (e.g. Lee and Beamish, 1995; Makino, Isobe and Chan, 2004). However, several trends run counter to such an attempt. Firstly, IJV performance studies in both groups show a small rate of replication, implying that most authors attempt to study distinctive success factors rather than repeating and re-examining prior research. Rare exceptions are 'cultural distance' and different measures of 'size' (in both groups) as well as 'IJV location', 'equity status owned by foreign parent' and 'industry/sales growth' (in the China-group only). Secondly, even in the rare cases where variables are denoted by the same label, such as 'size', various studies use different measures for the same construct.⁵ This problem increases as constructs become more opaque and complex (e.g. 'forbearance', 'experience', 'commitment'). Even if one success factor shows significant positive correlations with regard to one country and significant negative correlations with regard to another country, the results may simply be due to methodical and statistical differences. One solution is to conduct comparative studies of IJV success factors across multiple host country environments. To date, however, such comparative studies are rare in the China-sample (e.g. Li et al., 2001) as well as in the non-China sample (e.g. Hennart and

Zeng, 2002). With these caveats in mind we will highlight selective findings that appear to show certain consistencies and inconsistencies across the two sample groups.

Some evidence of consistent findings

‘Cultural distance’ has been frequently studied in both samples, however, in both cases there are mixed results (see also Zhao et al., 2004). In addition, in accordance with RBV reasoning, studies show that a strong strategic commitment and resulting resource allocations by foreign and local parent organizations have an important impact on IJV success regardless of the country of investment.

Furthermore, studies from both samples indicate that ‘prior experience with IJVs’ has only a marginal impact on IJV-performance (Luo and Park, 2004; Merchant, 2005). This contradicts common wisdom as well as findings in a broader context of foreign subsidiary performance (Delios and Beamish, 2001; 2004).⁶ Although Delios and Beamish (2001, p. 1036) argue that the discrepancy may be explained by the location of different countries’ positions on the learning curve, their latter and even more advanced study (Delios and Beamish, 2004) extensively elaborates the impact on performance for different subsidiary exit measures and proves the need for further and more fine-grained research approaches.

Consistent findings showing significant positive relationships between ‘length of operation’ or ‘age of the IJV’ and IJV performance may be due to a survival bias: because the IJV was – for whatever reason – successful, it still exists and grows old (‘age’). Although the relevance of a survival bias has been highlighted (e.g. Isobe et al., 2000), the majority of IJV studies we reviewed ignored or neglected it in their analyses. Exceptions such as Luo (1997) and Pan and Chi (1999) show a way to avoid or reduce the survival bias by including failed or terminated IJVs in their surveys. Hence, a closer look at these studies and additional research

applying organizational learning theories is needed.

Additionally, the “people factor”, i.e. variables that centre upon inter-personal acquaintance, trust, and cooperative behaviour, are of great relevance for the success of IJVs, regardless of country. In addition to simply testing the almost certain relevance of these variables, researchers should be encouraged to analyze the preconditions, factors, and processes that foster trust building, cooperation, and personal reliability. Finally, with only a few exceptions, ‘control’ issues have consistently been found to impact IJV success. Findings from both samples indicate that IJV success is not a matter of either dominant foreign or dominant local parent control, but a matter of implementing adequate control mechanisms.

Some evidence of inconsistent findings – the search for China-specific success factors

Due to the inherent methodological problems across the studies, it is difficult to clearly identify systematic inconsistencies across the China and non-China samples that might indicate a host country effect. However, we do find that while IJV size has a mixed impact on performance in non-China studies (e.g. Hennart and Zeng, 2002), it shows almost no correlation with success of Sino-foreign IJVs (e.g. Luo and Park, 2004). As there is no apparent explanation for this discrepancy besides the different operationalization of IJV size, future research should examine this phenomenon more deeply, for instance through adopting multiple measures for IJV size in the same study. Additionally, surveys in China prove, with the exception of cultural distance, more ‘fit’-variables between foreign and local parent organization predict IJV performance than do non-China studies. Whether this might be due to a greater emphasis on equal partnerships in China or to other reasons is awaiting confirmation by future studies.

With regard to all other direct success factors that have been studied either in Sino-foreign or in non-China studies we have not been able to identify clear distinctions of major relevance

and validity across the two samples. This is by no means proof of any absence of differences or the existence of China-specific success factors, nor does it support the belief of general success factors of IJV management. It may instead be the consequence of different operationalizations and methodological considerations of the field in general.

Methodological Considerations

The comparison of China- and non-China-related studies shows no relevant differences with regard to their principle empirical validity or reliability. Recently, however, writers have raised issues regarding research difficulties and methodological problems such as probability sampling, government controls, lack of reliable secondary data, survey instrument design and survey implementation (Roy, Walters and Luk, 2001, p. 203). While some difficulties are obviously bound up with China-specific conditions, others appear to be of a more general nature.

Relevance of China-specific research conditions

Purely secondary data have been used by about one third of all IJV performance studies we analyzed (China: 4 of 16; non-China: 10 of 25). While four studies of the China-sample and one study of the non-China sample rely on a mixture of primary and secondary data, half of the China studies and 56% of the non-China studies base their empirical tests on primary data. In the China studies problems may stem from the use of official data obtained and provided by governmental institutions which may dress up the data (Malhotra, Agarwal and Peterson, 1996). In the future, it would be optimal to follow strategies for collecting primary data to avoid bias problems, notably by involving local, i.e. Chinese researchers, or governmental research organizations. At the same time, obtaining primary data may lead to other methodological problems such as respondent biases. For example, relying solely on responses from either foreign parents or local parents may limit the generalizability of findings (e.g. Lee and Beamish, 1995).

Especially with regard to the PRC, language difficulties and a “losing face”-bias are highlighted by Roy et al. (2001), who propose using more differentiated scales (i.e. 10-point Likert scales) instead of traditional 5 or 7 point Likert scales and to increase back-translating and/or pilot testing of survey instruments. At the same time, Chinese management researchers already seem to be aware of the need for back-translation (e.g. Luo, 2001; 2002c) and pilot testing (e.g. Lin and Germain, 1998; Luo, 2002b; Wang et al., 1999).

General problems of empirically-based success factor research

China-specific methodological problems such as the lack of external validity or low generalizability of samples and findings (e.g. Roy et al., 2001) reveal many fundamental problems in this field. These include the small sample sizes, time frames that may not be up-to-date, country biases and other reasons. These problems are openly admitted by researchers with regard to China (e.g. Isobe et al., 2000; Lin and Germain, 1998; Luo, 2001; 2002a; 2002b; 2002c) and other countries (e.g. Barkema, Shenkar, Vermeulen and Bell, 1997; Hennart and Zeng, 2002; Lane et al., 2001). Hence, researchers often recommend re-testing findings in other emerging economies (Li and Atuahene-Gima, 2001) but, as our comparative review clearly shows, this recommendation has been widely neglected thus far.

The practical and scientific usefulness and generalizability – even of statistically strong significant correlations between indirect and direct success factors and IJV performance – is doubtful because of the inconsistent operationalization of independent and dependent variables (e.g. Lin and Germain, 1998), survival biases (e.g. Isobe et al., 2000) or an over-simplified cause-effect logic (e.g. Luo, 2001). A telling fact is that no two studies in our sample used the same measure for IJV success. Corresponding agreements among scholars and a broader use of multidimensional performance measures (e.g. Luo, 2001) are obviously needed.

Almost every study derives its independent variables from literature reviews and hence admits to building on ‘approved’ concepts. However, with few exceptions (e.g. Luo, 2001) underlying assumptions with regard to unidirectional cause-effect-chains or interdependencies are neglected. March and Sutton (1997), for example, generally challenge the frequent use of unidirectional causal links as reflexivity effects, learning dynamics, and the difference of short- and long-term performance goals are fundamentally ignored.

Finally, methodological problems culminate in a fundamental criticism of the current, mainly quantitative IJV success factor research. Parkhe (1993, p. 229 et seq.), for instance, complains about the overuse of quantitative methods and its limited potential for theory advancement. Unfortunately, our review shows that his pessimistic evaluation still holds more than ten years after he first made this observation. Less than half of the studies we reviewed use a sound theoretical foundation and almost no study offers suggestions with regard to substantive theory improvement. Many analyses seem to use organizational theories purely for justification purposes and offer unidirectional cause-effect models. Although sophisticated statistical methods and tests are frequently applied, most studies do not, for instance, test the impact of past success on success factors and present IJV performance (for a related limitation see Luo, 2001, p. 199) and thus fail to contribute considerably to theory development within the field of IJV management. Quite obviously, research aimed at identifying generic success factors of IJVs – whether in China or elsewhere – falls prey to the general criticism of organizational performance or success factor research (e.g. March and Sutton, 1997) which points to the fundamental methodological deficits and problems of the approach and the lack of utility for practitioners. Taking this perspective, our review of this literature confirms above all the great difficulties for scholars and practitioners in deriving a secure and unambiguous basis for future decisions and

actions from the existing findings.

Implications for Future Research

The primary objective of this paper was to appraise the present research status of key success factors for managing IJVs in China in order to enhance its value for practitioners and scholars, and to direct future research and theory development. To this end we developed a conceptual framework based on relevant organizational theories which helped to systematically review emphases and findings of studies published in leading management journals and to compare data related to Sino-foreign JVs with non-China IJVs. Our review shows that Chinese management research published in top journals in general, and quantitative Sino-foreign JV performance studies in particular, meets high academic standards. Although researchers overwhelmingly abstain from contributing to theory building, they at least use organizational theories to justify their selection of independent variables and increasingly apply adequate methods to solve China-specific research challenges. The result is an impressive range of independent and dependent variables tested in the existing literature.

Reflecting on this broad range of findings, we tried to answer important research questions: Where are apparent research accumulations and gaps? Are there China-specific success factors that corroborate results regarding host country effects? What theories are most appropriate to explain FDI and IJV management within the PRC? In order to answer these questions we additionally screened and included the corresponding IJV literature conducted in countries other than China. However, problems inherent in current quantitative approaches to identify generic success factors for managing IJVs do not allow for simple, straightforward answers. Instead, our analyses and critical discussion elaborate two different research avenues for the future.

The first, more conservative research direction may abstain from debating the general usefulness and appropriateness of success factor research (March and Sutton, 1997) and focus on apparent gaps and deficits highlighted throughout our paper as well as on the selective replication of certain success factors. By doing so, an evolutionary perspective on IJV performance – which is of special interest in the context of the PRC due to major institutional changes – could be established. To shed more light on host country effects, i.e. country-specific success factors, researchers may additionally conduct comparative inter-country research. In order to facilitate replicative and comparative studies and increase the generalizability and value of findings, the development and publication of consistent research standards (e.g. definitions, operationalizations, and measures) should be considered. Furthermore, developing a research framework, whether based on the one we propose or another may help to discern what conclusions are warranted to direct future research and especially to foster theory building.

The second, more progressive research avenue derives from March and Sutton's (1997) criticism mentioned above. It calls for an adjustment and major redirection of the IJV research. Although theory development in the field has been demanded by previous writers (e.g., in Parkhe's 1993 seminal work), it is not evident in most of the empirical success factor studies in the literature. Given the complexity and dynamism of prevalent theories, the field may gain from more authors specializing in certain theories. Consequently, they may be better able to test relevant aspects and interpret findings with regard to consequences for the further development of the respective theories. Such a redirection may be also fruitful to foster alternative research approaches such as case studies instead of or in addition to purely quantitative methods.

CONCLUSION

The field of IJV research has advanced dramatically in the past decade yet this review highlights

a number of areas where future research and theoretical developments are warranted. The burgeoning research focus on Sino-foreign IJVs is generally of high quality and offers a number of interesting insights for both scholars and practitioners. At the same time, as we have argued it is important to take stock of what we know in this field and begin to place the findings in comparative perspective and attempt to provide a unifying framework to understand the important phenomenon of IJV performance. While this paper is an effort at this synthesis and unification, there are still many questions left unanswered, providing fertile ground for additional research in the future to enhance our knowledge in this important field of international strategic management in general and Chinese management in specific.

NOTES

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¹ As pointed out by an anonymous reviewer while no success factors in the literature have emphasized the category ‘informal institutions’, informal institutions have an important impact on IJV performance and that future studies should not ignore these factors.

² IJV performance comprises financial performance and survival/mortality of an IJV as their dependent variable whether measured objectively or subjectively. Direct success factors are independent variables with a direct impact on the dependent variable (i.e., performance), whereas indirect success factors exert an indirect effect on the dependent variable through moderating direct success factors.

³ This number does not include the study of Dhanaraj and Beamish (2004) because of their extraordinary sample size of 12,984 IJVs.

⁴ In addition, another 31 factor-performance tests can be partially assigned to this category because it is not possible to specify whether these are solely concerned with foreign or local parents (see ‘parent attributes’ category in Appendix B).

⁵ For example: “number of employees” (e.g. Luo and Park, 2004) or “log of sales volume in the previous year” (Dhanaraj et al., 2004).

⁶ Both studies are not included because their samples do not distinguish between China and non-China results. Nevertheless they offer interesting insights and in particular advanced methodologies for improving our knowledge about the performance of IJVs compared to WFOE.

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TABLE 1

Theoretical foundation of the studies under review

China IJV Studies	Theory	Non-China IJV Studies
Luo (2001)	<i>Internalization Theory / Transaction Cost Economics</i>	Beamish and Kachra (2004)
Luo (2002c)		Dhanaraj and Beamish (2004)
Luo and Tan (2003)		Makino and Delios (1996)
Luo, Shenkar and Nyaw (2001)		Merchant (2005)
		Merchant and Schendel (2000)
		Mjoen and Tallman (1997)
		Park and Ungson (1997)
		Robins, Tallman and Fladmoe-Lindquist (2002)
Isobe, Makino and Montgomery (2000)	<i>Resource-based View</i>	Beamish and Kachra (2004)
Li, Lam and Qian (2001)		Choi and Beamish (2004)
Luo (1997)		Makino and Delios (1996)
Luo (2001)		Robins, Tallman and Fladmoe-Lindquist (2002)
Luo (2002b)		Steensma, Tihanyi, Lyles and Dhanaraj (2005)
Isobe, Makino and Montgomery (2000)	<i>Organizational Learning / Knowledge-based View</i>	Dhanaraj, Lyles, Steensma and Tihanyi (2004)
Luo (2001)		Lane, Salk and Lyles (2001)
		Lyles and Salk (1996)
		Steensma and Lyles (2000)
		Steensma, Tihanyi, Lyles and Dhanaraj (2005)
Luo (2001)	<i>Social Exchange Theory</i>	Steensma and Lyles (2000)
Luo (2002c)		
Li, Lam and Qian (2001)	<i>Institutional Theory</i>	
Gong, Shenkar, Luo and Nyaw (2005)	<i>General Systems Theory</i>	
Luo (2005)	<i>Loose Coupling/Procedural Justice Theory</i>	
	<i>Contingency Theory</i>	Hill and Hellriegel (1994)
		Park and Ungson (1997)
	<i>Bargaining Power Theory</i>	Mjoen and Tallman (1997)
	<i>Real Options Theory</i>	Reuer and Leiblein (2000)
	<i>Internationalization Theory</i>	Makino and Delios (1996)